DECISIVE MARKET PHASE AHEAD ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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SMALL COMPANIES WITH STRONG GROWTH POTENTIALS

By Ward Gates

WHAT HIGHER WAGE TRENDS WILL MEAN

By Laurence Stern

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and BUSINESS ANALYST

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THE MAGAZINE OF WALL STREET

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The Trend of Events

AFTER GERMAN DEFEAT . . . The changes in our economic situation after the defeat of Germany have long been a matter of concern—and no little uncertainty—in the minds of all thinking people. That, along with the related uncertainty as to the duration of the Pacific war, is no doubt the chief reason why the level of the stock market, despite many limited ups and downs in the meanwhile, is today unimportantly changed from what it was in July, 1943, when the fall of Mussolini first focused serious public attention on the thought of the victorious termination of the war.

The Government agencies, like the rest of us, have been trying to look ahead and foresee the shape of things to come. They, of course, have a superior vantage point over civilian observers, though that doesn't necessarily make the foresight of any prophet infallible. Recently, in a restricted report from which only limited parts "leaked" out for publication, the OWI summarized what can be considered the combined view of all the chief war agencies. It took the premise that the war in Europe would end before or not long after the close of 1944.

This survey sees wide economic "dislocations"—some of them "serious" in areas where war order cutbacks will have their heaviest impact—after V-E Day. But all references to unemployment are cautiously tentative. In fact, there is no estimate of maximum unemployment at any one time. It predicts that, roughly, 5,000,000 people will be "changing jobs" in the twelve months after V-E Day, exclusive of perhaps an equal number of women, elderly people and youths who will withdraw from the labor force. But, on the whole, the official view is that the unemployment problem between conclusion of the German and Japanese phases of the war will be moderate and "manageable."

That seems to us well founded. Certainly continuing war in the Pacific, along with simultaneous and progressive reconversion to civilian durable goods production, will support much higher employment than we had before the war. The real employment problem will confront us at a more distant time—just how distant having an important relation to the war with Japan—as we shall explore more fully in a special article in our next issue.

Certain other observations in the OWI survey seem more open to difference of opinion. One is that inflationary pressures will increase after V-E Day and increase further, or at least still be with us, after defeat of Japan. We are not so sure of this, and are especially skeptical about inflation "pressures" after defeat of Japan.

LABOR AND CAPITAL . . . We have been setting many new records in this country. They include new peaks in production and in labor's share thereof, as measured by wage earnings. In contrast the total dividends that American investors will receive this year are about what they were back in 1925-1926, and in ratio to production this distribution is among the lowest ever known.

Looking at the record—and taking note of the increased militancy with which organized labor is now pressing for further "gains"—the fear of equity investors that they are on the losing end of a "class war" is certainly un-

derstandable, though it is perhaps exaggerated. It is one of the reasons why capitalist confidence in the future is not as strong as we need it to be, if we expect investment money to flow into job-making undertakings. Why that is so—and other implications of the new crisis in labor relations that now seems to be shaping up—are discussed in a special article on following pages.

We think it desirable, however, to comment briefly here on two broad aspects of the "labor problem" about which all citizens of good will—including those within the labor movement—need to do some clear thinking. One is that here, and in every country where labor is free, the philosophy of labor unions gives every appearance of regarding "profit" as anti-social, of regarding "capital" as an enemy, of opposing labor-saving mechanization and of favoring limitations on production. The other is that the unions more and more rely on government as the instrument through which—by political pressure—to obtain both higher wages and increased security. We can understand these leanings, but Labor needs to be reminded of some immutable realities that it seems to be forgetting.

The simple truth is that under any kind of economy—including Communism—the living standards and the security of workers can be increased only out of increasing production. Which is to say, as the *London Economist* recently did, that what matters most is the size of the cake, rather than just how it is sliced. Under any system it is only out of profits that capital can be created; and only out of the creation of capital that there can be expanding employment and a rising standard of living.

In Soviet Russia the Government puts just as much emphasis on increasing output per man-hour as do private employers here, and for the same basic economic reason. In Russia, the most productive workers are paid more than less productive workers. In Russia the "profits" go to the State and thence back into more capital equipment, without expansion of which there can be no rise in living standards. In Russia, as here, the living standard depends not on money income but on the goods and services money income can command. Here the profits go first to capitalist owners and investors—whereupon a portion goes back into the business stream through consumption expenditures, supporting jobs just as does the spending of wage income; but a larger part—if the inducements are adequate—goes into productive investment, feeding expanding production and employment and thus raising the living standard of the people.

If it's looked at that way, it should be obvious that capital and labor are in the same boat. It can't be otherwise. Under any system of production, what harms capital harms labor and restricts the living standard. There's isn't any magic wand that any government can wave. A government can *promise* labor a higher living standard but it can't *produce* it. Only labor—and capital—can produce it.

MANAGED ECONOMY . . . In a public speech last week Francis Edward Evans, British Consul General in New York City, served notice that the British Government "will find it necessary for some time to come to maintain close control over raw materials and capital" in international trade.

That is no surprise. By now there is abundant evidence that Britain is moving quite definitely toward what the liberals called a "mixed economy" and what others call a managed economy; and it is very doubtful that this is merely an interim matter. Most of British industry prefers cartels and Empire preference to free trade. There is much criticism of the Bretton Woods monetary proposals because many object to the limited and indirect linking of sterling to gold—via its dollar relationship—that these proposals imply. British labor is pressing for more and more "socialization."

We seem to be pretty much alone in our hopes for a competitive, private enterprise economy after the war. Practically everywhere else the movement is toward more, rather than less, governmental intervention. That is so in recently liberated France and the Low Countries. It has long been so in Spain, Portugal, the Latin-American countries. Though moderately, Canada is moving that way. It's the only way post-war China can go. Central Europe? The one certainty is that capitalist democracy is not foreseeable there as far ahead as anyone can look.

All of this makes us wonder. Certain American business men demand that our Government "take its hands off" foreign trade after the war. We wonder how they expect to make out in competitive trading in a world of managed economies. And if foreign realities make it necessary for us to have Government trade control, we wonder whether that would permit as much domestic competitive enterprise as we hope for. Finally, having observed the workings of "managed economy" in Germany and Russia for some years, we wonder why the idea seems to have so strong an appeal among so many people.

THE AMERICAN DOLLAR . . . Most of us take the soundness of the American dollar for granted and assume that foreigners will never question it. But there were long periods in the past when the integrity of various major foreign currencies—since depreciated—was equally taken for granted. So it is a good thing to be reminded—as we were last week in a speech by Joseph C. Rovensky, a vice president of the Chase National Bank and a man of long experience in international finance—that the position of the dollar is, after all, not immutable.

The dollar, said Mr. Rovensky, will be used in international finance and trade more than ever before. Our money, as well as our technical equipment and managerial skill, will assist many countries—especially in Latin America—in industrialization and economic expansion. Because of its importance in world relations, he added, "our first job is to make the dollar worthy of the position it occupies."

It is useless to preach that other countries must put "their internal affairs in order" if we are to have international currency stabilization—when the United States Government has been operating on a deficit basis for fourteen years. How many more years must of necessity be added to this long record, none can foresee. Clearly, to balance our budget without intolerable deflationary consequences will be a monumental task of the future.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 6. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, October 9, 1944.

As I See It!

BY CHARLES BENEDICT

"AN EYE FOR AN EYE—A TOOTH FOR A TOOTH"

THERE has been great haggling and splitting of hairs about the interpretation of this biblical quotation, because it has been taken at its face value on the one hand and, on the other, it has not been related to other biblical philosophies designed to point the way of life.

Since the Bible was written in parable and with subtlety, we cannot read it literally but must interpret its meaning in the light of the other teachings it contains.

The Bible throughout tells us to leave vengeance to God and that human beings have been so created that, by our actions, we make heaven and hell upon this earth for ourselves. Philosophers like Emerson recognized this law of compensation as one of the really great truths.

If any nation deserves punishment, it is Germany. How are we to go about it? As sophisticated individuals, we know very well that there are no plans we can devise—no regulations that we can make—in which loopholes cannot be found and which human ingenuity cannot circumvent.

In the first place, hatred, revenge and the urge to punish will dictate a policy which will inevitably lead to errors of judgment in carrying out such a program. In the second place, the administration will pass on to future generations who might not feel the same way we do about Germany, and therefore will make changes that will frustrate the intentions of those who will sit at the peace table today.

This was true of the framing of the Treaty of Versailles and the carrying out of its terms. So many errors of judgment were made in an attempt to devise adequate punishment that the thoughts of peace and common sense were overlooked. Thus, when the Allies removed Germany's rolling stock and great liners, they took over property that became obsolete, while Germany was forced to build new and modern equipment—giving her the edge and advantage later.

This is bound to happen on a much greater scale if they should remove Germany's industrial equipment for distribution among the Allies. It may give her a chance eventually to modernize and create an industry which can, with her mechanical genius, outstrip the other countries in the space of a few years. No—this should not be done! Nor should we follow the tenets of the Treaty of Versailles, which in its severity made another war certain, so that in after years Germany gained sympathy everywhere and, with it, the huge sums necessary to rebuild her economy and her war machine.

This time we should approach the matter soundly and realistically, and make our plans with peace as our goal! Such an approach would be so objective that it would give us the correct answer to the great problem of what to do with Germany after the war.

The Germans are a highly emotional people with a flair for fanaticism. They can be led to great spiritual heights under proper leadership—just as they can be dragged down to the depths of barbaric cruelty and degradation as Hitler has succeeded in doing.

The type of German that evolves therefore depends upon the direction of this temperament, which poses a very hard question as to what to do with this generation of Germans whose minds have been warped by the teachings of Hitler. How to give them a civilized point of view! Is it possible to train them? What plan can we develop for quarantining them?

As far as the new generation is concerned, their education and development should be in our hands — definitely. Come what may, this is the only step we can take to assure ourselves in the future of a Germany inclined toward peace. And to accomplish this we must do more than wish or preach. We must act in accordance with common sense and wisdom rather than out of revenge.

The Road Ahead

Courtesy, Nash-Kelvinator

Already while we are so busy planning what to do with a defeated Germany, new forces are stirring beneath the surface. Japan—who has much to lose—is advising a beaten Germany to line up with Russia as the first step in forming a new Axis that will have no weak links—a Berlin-Moscow-Tokyo Axis.

Such a possibility would dismay the world, for the future would be very dark indeed if this came to pass!

It can be seen that the Western Powers are facing the most crucial time in their history; that they must act with the greatest possible (*Please turn to page 56*)

Decisive Market Phase Ahead

The averages are close to a test of the previous bull market highs. We believe any advance above them would prove rather limited and probably would be followed by decline. Therefore, purchases for appreciation now appear generally lacking in adequate promise and are not recommended.

BY A. T. MILLER

The market at this writing has maintained a creeping-type rally since the middle of September or for a bit over three weeks. The Dow industrial average has made up 5.96 points out of 7.54 points that were given up on reaction from July into September; while the rail average has regained 3.22 points out of 3.82 points of previous decline. The utility average has made a new high for the recovery period.

The Magazine of Wall Street's index of 283 representative stocks is within a fraction of the previous high for the year. So are our indexes of 100 high-price and 100 low-price stocks. New highs for the period since Pearl Harbor have been made by our averages of 15 high grade common stocks, 10 armament stocks, 10 medium-grade preferred stocks and 10 speculative preferred stocks. In further reflection of investment demand, our index of corporate bonds is also at a new high.

The above facts seem unanimously bullish—as far as they go. They suggest an imminent test of previous highs in the broader stock averages. The technical "interpretation" will be relatively simple. If the industrial and rail averages make new highs, it will be that the July-September intermediate reaction has passed into history and that the major bull trend is "reconfirmed." On the other hand, if the recent movement falters under increasing offerings, another reactionary phase—which might or might not be confined to trading range proportions—will be the probability.

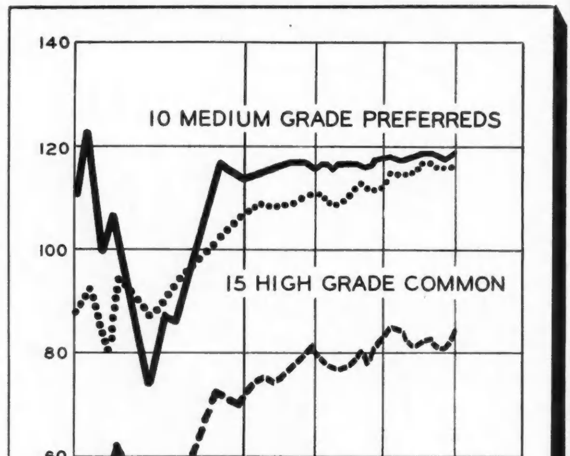
Unfortunately, there are times—and we believe this is one of them—when pat technical "signals" are of limited usefulness, or even no usefulness at all, as a guide to sound policy in the investment of money. It would be quite possible—probable, we think—for an extension of this rise to new highs to prove a limited, rather than a continuing, move; and therefore to present a better opportunity for distribution than for accumulation.

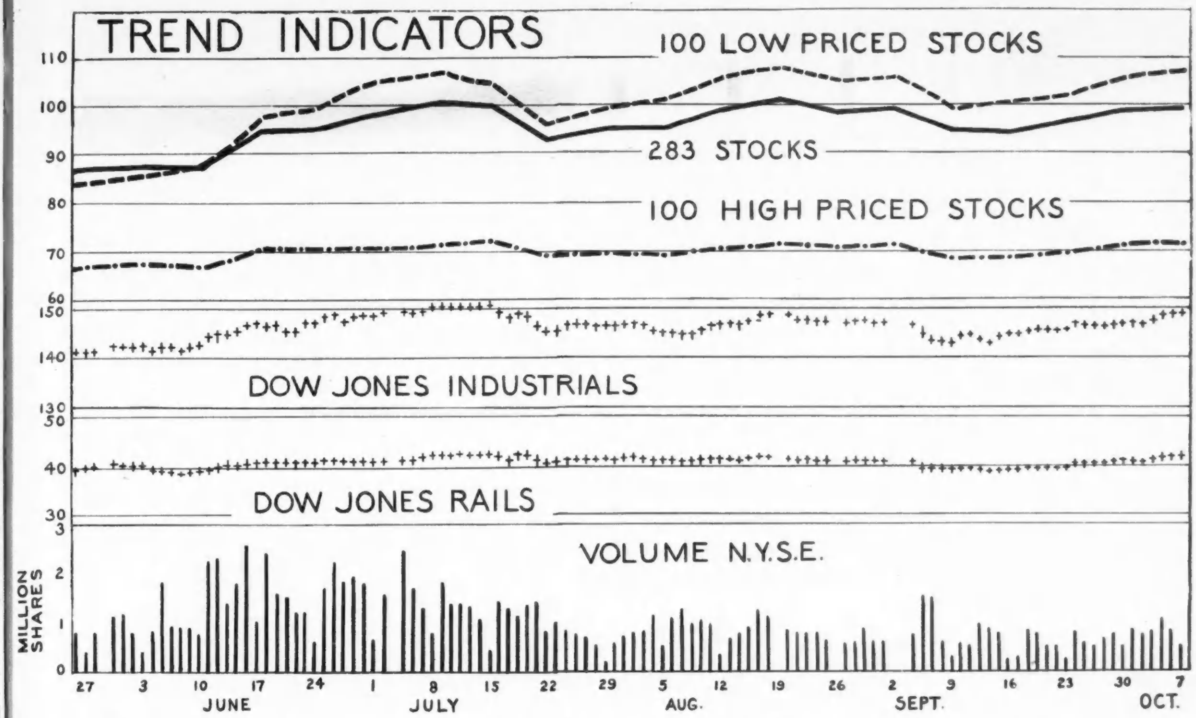
In the relatively small trading volume on this rally to date, as well as certain other evidence, there is a suggestion that recent strength has been due more to the lightness of liquidating pressure than to any dynamic increase in demand. It takes broadening demand to support a sustained upward trend. The latter might, of course, develop; but in the existing economic-political setting we doubt it. It appears more likely that additional rise would in fairly short order reduce investment demand and increase the willingness to liquidate.

The idea that the "bloodless verdict of the market place" is always right and should be accepted by investors is sheer nonsense. If it were always right, we would never have such "bullish—and utterly mistaken—extremes as the 1929 or 1937 highs, or the opposite extremes of the 1932, 1938 and 1942 lows. If it were infallible, we would not have had the sharp war "boomlet" in September-October of 1939, followed within a relatively few months by a 40-point nose-dive in the industrial average.

Stocks always "look good on the tape" when they are going up; but sensible investors don't buy on that tenuous basis. Speculators do—and very few of them come out over the long run with more capital than they put in. It is common sense to weigh reasonably definable analytical values against prevailing prices; and to aim—even though full success is impossible—at buying stocks when they are down, not when they are up, and when they are discounting future earnings possibilities as liberally and as far ahead as appears to be the case today.

True, one can still find a sizable minority of sound stocks which are priced reasonably, rather than extremely, on the basis of apparently dependable dividend yields of 4 to 6 per cent. But these run mainly to conservative stocks in which the new highs are made by a





matter of fractions. Some investors need or wish to have their money always "at work." If one emphasizes current yield, coupled with moderate longer-term appreciation potentials, it can be had—and elsewhere in this publication we endeavor to cite stocks that will serve this purpose. But the other side of it is that the great majority of such stocks—as well as more speculative issues—have been available at substantially lower prices than now prevail in each of the past ten years or so. Hence, whether "reasonable" or not, they are not cheap. Where the object is to build capital, with income return a secondary consideration, we can only repeat that from an intermediate-term point of view—that is, looking ahead two to six months—the risk in present speculative-investment purchases seems to us to outweigh the potentials for gain.

Recently new highs for the year or longer were made by such stock groups as automobile accessories, dairy products, department stores, food stores, mail orders, rail equipments, soft drinks and variety stores. With the exception of rail equipments, they are all consumer goods "peace stocks." Soft drinks are at an all-time high; auto accessories at the highest level since 1929; dairy products since 1931; department stores, mail order and variety stores since 1937. In short, they can't be good buys for appreciation. More and more, they have been discounting the expected post-war consumer goods boom—which has an increasing chance of looking less roseate when it actually develops than many people seem to imagine.

Peace in Europe now looks to be at least several months more distant than the hopeful consensus was allowing for during the summer. If that is so, it necessarily will delay reconversion proportionately; and it may be noted that the War Production Board is already reversing some of its previous moves toward easing the restrictions on civilian production. Since the theme of the bulls is post-war civilian goods activity and tax relief—both hinging on peace—it seems to us that any extension of the prospect of victory in Europe is not bullish but the contrary.

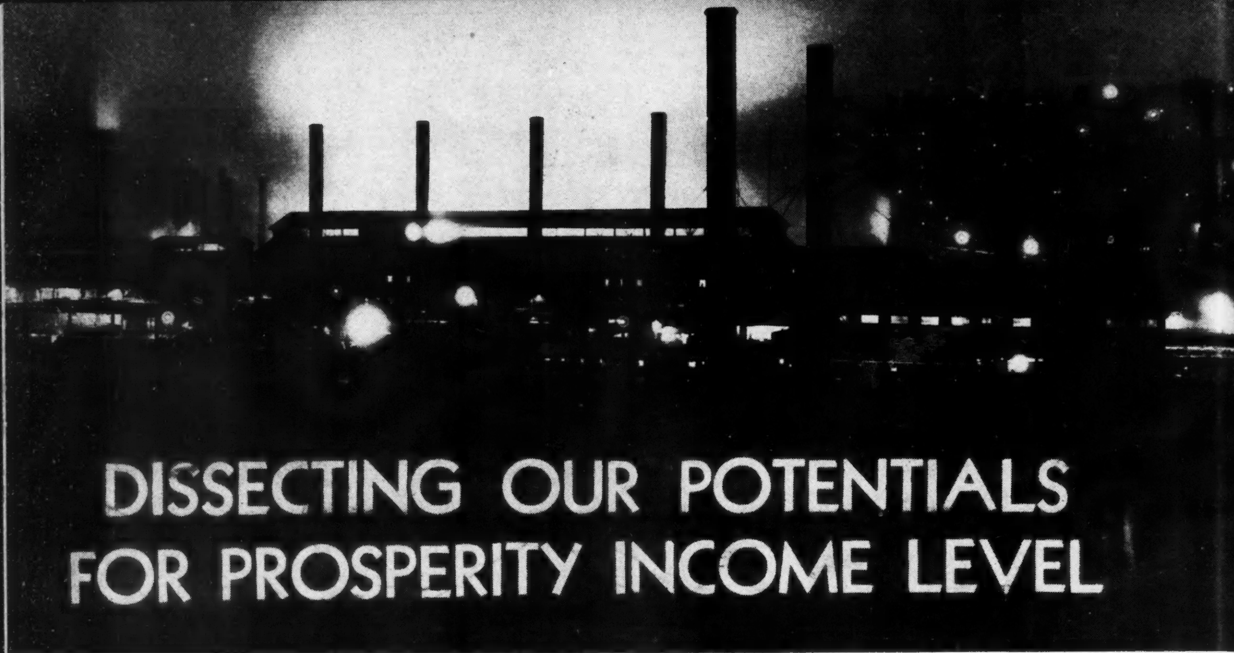
On the war against Japan, the present official consensus in Washington is that it is likely to go on for at least 15 months after defeat of Germany and quite possibly for two years. This may or may not prove correct. No one can know. But the possibility raises some very significant questions about our economic prospect—and the tax prospect. These questions, in fact, are so important that we are devoting a special article to them in our next issue.

Suffice it here to say that protracted war in the Pacific would project a dual war-peace economy, releasing enough industrial capacity from war production so that a very important portion of the deferred demand for civilian durable goods and the export demand for reconstruction goods would be made up *before* the defeat of Japan and while high Federal taxes are still in effect.

If such proves to be the shape of things to come, the post-war "boom" could be something quite different from what speculative stocks have been so long discounting.

Meanwhile, incident to readjustment after defeat of Germany, a very considerable interim squeeze on corporate earnings appears clearly to be shaping up. The factors making for this squeeze will be ceiling prices on the one hand; and, on the other hand, such influences as higher unit labor costs; an increased ratio of overhead to gross; increased selling expenses as civilian customers are sought; cost of re-tooling; cost of retraining factory personnel for civilian durable goods production; a greater variety of products with shorter machinery runs per lot; inventory losses in some cases; lower ratio of sales to capital investment and war-expanded floor space; and important new competition in many instances.

Despite all this, October may be a month of small market advance—discounting, or ignoring, the election. If so, we expect second thought to be taken thereafter, and perhaps sooner.—Monday, October 9.



DISSECTING OUR POTENTIALS FOR PROSPERITY INCOME LEVEL

BY E. A. KRAUSS

THERE is much conjecture as to the reason for the stock market's indifference to good news as well as bad, and the former lately have greatly outweighed the latter category. But the market, while resistant to depressing news, is not responsive to favorable developments and, whatever the nature of the daily news budget, is reluctant to do much either way.

The most popular explanation of this apathy has to do with reconversion uncertainties, generally viewed as a major deterrent to more decisive market action, and this is probably as valid a factor as can be found though acting perhaps in a more indirect manner than commonly assumed. There is hardly any doubt that the end of the war in Europe and the prospect of partial reconversion, as such, are largely discounted marketwise as sufficient evidence has accumulated for some time foreshadowing their relatively early incidence. Nor can it be doubted that the market is not ignoring the implications of partial reconversion in terms of declining production, employment and national income. Neither collapse of the Reich nor transitional difficulties, when these events do occur, can carry much of the surprise element; both have been a normal expectancy for some time.

It becomes increasingly evident, however, that what the market is wrestling with (and cannot make up its mind about) are the *longer term* implications of the war's end, of reconversion and the general transitional pattern as it will affect our post-war future. These questions form a perplexing puzzle and the market (as everyone else) finds it difficult to penetrate the fog of uncertainty and come to clear-cut conclusions. In short, what is actually wanted is more light on the longer range future and until it can be had, it seems questionable whether we shall witness any decisive and fundamental market action either way. In other words, not before then shall we know whether we are headed for a bear market or whether there will be a revival of the bull market.

Reconversion, while discounted as an early prospect, constitutes an essential factor inasmuch as its speed and smoothness of procedure will in decisive measure determine the longer range economic picture. *And it is this picture which the market is trying to get into focus.* In doing so, there is acute awareness of the primary need of the post-war era, that is the need for a high level of production, employment and national income, in the interest of social and economic stability, and, let us add, national solvency as well. There are other factors, of course, but they remain subordinate in point of relative importance in proportion to their inability, or ability, to influence the main issue.

The global war, when it is over, will leave us with a heritage of a huge public debt, a greatly swollen labor force seeking gainful employment, a vast accumulation of savings and a respectable backlog of deferred demand for numerous products. The problem of reconciling these basic elements, and transmuting them into prosperity, is no mean one. The great controversy, past and present, over how to do it is the best proof of its enormous scope and complexity. Unfortunately, no clearly defined line of action has so far emerged and this is the very core of the trouble facing us.

Briefly, the assumption is that after the war there will be some 58 million people available for work, and this allows for two million still in the armed forces and frictional unemployment of some two million additional. To provide work for this tremendous labor force will require unprecedented peace-time production volume not only because this force is much larger than in pre-war years but also because of the considerable increase in output per worker, estimated at least 10% since 1940.

Everyone is pretty well agreed that to tick smoothly, our economy under such circumstances must be geared to a national income of about $140 billion annually, meaning a gross national product of $170 billion, only about $30 billion less than the war-time peak which at 1943 prices is put at about $200 billion. This lower estimate of what will be needed for full employment is based on the belief that the hours of labor will decline, that an indeterminate number of workers (perhaps 2.5 million) will have left the labor force and that additionally, the average volume of output per man-hour will shrink somewhat owing to the fact that many workers

will return to trade and service occupations, and other industries where output is less than in highly mechanized industries such as most war industries.

Were the gross national product to return to the 1939 level which in terms of 1943 dollars would have been $108 billion (actually it was $88.6 billion), unemployment of from fifteen to twenty million persons might be expected. This would be comparable to the economic catastrophe of the Thirties and obviously would never do.

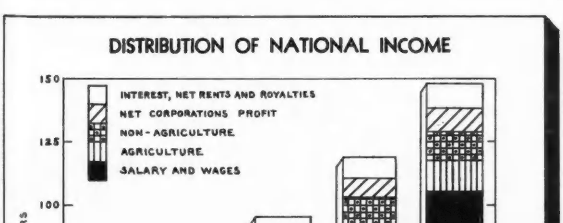
Relationship of Consumer Income to Consumer Spending

	1993	1941	1933	Post-war Projections FRB	Alternate (based on 1941 per centages)-
	($ billions)				
Income payments.........	$70.8	$92.7	$142.3	—	—
Disposable income........	67.7	88.7	124.0	127.0	125.0
Spent for durables.........	6.4(9.4%)	9.1(10.2%)	6.5(5%)	18.0(14%)	12.5
Spent for non-durables....	32.6(48.1%)	40.1(45.2%)	55.2(44%)	60.0(48%)	56.2
Spent for services..........	22.7(33.5%)	25.4(28.6%)	29.2(24%)	35.0(28%)	36.2
Savings.................	6.0(9%)	14.2(16%)	33.0(26%)	17.0(13%)	20.1

The war has demonstrated our enormous productive capacity and viewed purely from the production angle, no one seriously questions our ability to achieve a post-war national product of $170 billion although it would mean an output much larger than in any pre-war year. The great question mark is: Can we sell such an output? And here is where our troubles begin.

The *need* for such large post-war production is clear-cut; it is mandatory if we are to maintain national income at a level sufficiently high to enable us to carry our public debt. Failing in this, we must either raise taxes which would throw us into a deadly deflationary spiral, or we must resort to inflationary debt financing. Both alternatives are equally undesirable but can we escape them? The crucial point is that we must sell this high output at a profit, not give it away in part, for that too would mean courting inflation.

Presently, official post-war planners are busy concocting a complicated prescription for post-war prosperity. It calls for a level of business activity far above pre-war in any field; for a revamped tax structure which will discourage savings, encourage spending and investment in productive enterprises; for a high level of farm income which will probably have to be underwritten by Government price supports and further insured through production controls and such devices as food stamp plans for disposal of surpluses; for expanded export trade, particularly in agricultural products and heavy industrial goods, partly by means of Government credits and by accepting raw material imports (not needed) for stockpiling to raise foreign purchasing power in our market; for wider social security and unemployment insurance benefits to bolster domestic purchasing power and for local, state and federal public works programs which would be held to a minimum in good times and stepped up when our economy begins to falter. In other words, a blueprint for a compensatory economy with a strong inflationary tinge.



With the help of such a program, its advocates are hopeful that we can sell the high national output needed after the war. Let's examine what it would mean in terms of production and in terms of required Government infusion of funds into the national income stream.

Currently, the Federal Government spends for war at an annual rate of some $92 billion including lend-lease; of this total, expenditures for strictly armament and munitions are estimated at some $66 billion. In simple terms, the problem is how can these outlays, or a large part of them, be replaced after the war? Take the year 1943 which is more nearly comparable with our post-war goal of $170 billion gross national product and a resultant $140 billion national income. In 1943, the gross product was $186.5 billion and national income $148 billion. Federal expenditures for war were $81.3 billion or about 45% of the total national product. (Today, the ratio is almost 50%.) In other words, almost half of the national product now required for our war economy must find peace-time outlets. This is practically equal to the total national product of 1937 or 1939!

The problem is aptly illustrated in the accompanying table, detailing national product and expenditures for various years and containing projected figures for post-war on basis of a $170 billion gross national product. One of these projections consists of figures published some time ago in the Federal Reserve Board bulletin and admittedly rests on fairly optimistic expectations and, as its authors point out, is definitely not a forecast. The same applies to the alternate projection prepared for this article and based on somewhat more conservative expectations which the writer feels are more in line with current thinking in business quarters. Both assume post-war Government expenditures (Federal, state and local) totalling $30 billion, leaving output of $140 billion available for private use.

To dispose of this output, the FRB projection relies rather heavily on private capital formation, totalling $27 billion and very considerably in excess of the 1941 peak when industry, rapidly expanding for war production, spent nearly $9 billion for plant equipment, $2.5 billion for construction and $3.5 billion for stocking inventories while residential building came to $2.9 billion. The FRB projection carries post-war residential building at an annual figure of $7 billion, a rather generous estimate if we consider the imponderables which may affect our building boom prospects and also the fact that the previous peak level in 1926 of $4.59 billion, with an 30% increase in building costs added, would still amount

Consumption Expenditures in Typical "Backlog Industries"

($ millions)

	1929	1937	1939	1941
Furniture	$1,209	$923	$914	$1,357
Floor coverings	499	370	359	480
Refrigerators, washing machines & sewing machines	357	448	375	602
Misc. electr. appliances	144	167	187	284
Cooking & heating equipment	302	258	248	385
Household furnishings & equipment	1,517	1,168	1.268	1.553
Automobiles (new)	2.563	1,937	1.626	2.527
Auto parts & accessories	422	302	305	437
Tires & tubes	419	172	232	246
Boats	22	14	16	24
Radios, phonographs, parts & records	907	381	402	609
Musical instruments	107	61	63	100
TOTAL	$7,468	$5,201	$5,995	$8,604

to no more than $5.96 billion. Everything considered, the alternate estimate of $5 billion appears to us more in line with reasonable, and at that fairly optimistic, expectations.

Expenditures for producers durable equipment is carried at $15 billion in the FRB projection, and at $8 billion in the alternate set of figures. They represent expected outlays for deferred maintenance, modernization and plant expansion. Deferred maintenance is currently estimated at around $2 billion, leaving $6 billion for new plant and other equipment or about equivalent to such outlays in 1942. As the FRB points out, it is not possible to estimate accurately the volume of capital goods that will be produced though some idea of the potential may be obtained from consideration of the forces that will affect the demand for them. Clearly, a $15 billion volume could only materialize under extremely propitious conditions which we hesitate to foresee; moreover, it could not be maintained over a period of years. Numerous other factors could be mentioned to support this contention. War-time plant expansion has been very considerable and in a number of industries will obviate the need for further additions. Some are actually overbuilt, only a few underbuilt. We doubt whether potential volume can match or greatly exceed similar expenditures made in 1941. However, as we shall see later, the point is not of decisive importance to the over-all problem.

Finally, restocking of inventories is estimated to result in outlays of $3 billion, and net exports are figured to account for $2 billion, both reasonable expectations although the export item can naturally be no more than a guess. This leaves available consumers' goods and services of $113 and $120 billion respectively, according to which projection is regarded as the greater probability. The real crux of the entire problem is how to sell this huge amount and it is highlighted by considering the following.

A projected national income of $140 billion would mean a disposal income (after taxes) of some $125 to $127 billion, thus virtually the entire disposable income would be required to absorb available consumers' goods and services of $120 billion. In the light of past relationships between consumer income and consumer spending, it is hardly likely that $120 billion out of total disposable income of some $125 billion would be spent. Such an expenditure in fact appears thinkable only if there is a sharp decrease in taxes which would materially raise the amount of disposable income; at this time it appears problematical whether such a tax decrease can be reckoned with.

The question, however, spotlights the vital dependence on tax reduction of the future level not only of national income but consumer spending as well. The smaller the national income, the higher must be the tax rate to collect the revenue needed unless we resort to inflationary fiscal policies. Conversely, the lower the tax rate of the individual consumer, the greater his disposable income and, presumably, his spending propensity.

It goes without saying, however, that in order to dispose of available goods and services of $120 billion, the nation after the war must buy far more than ever before. FRB in its projection assumes that consumers out of disposable income of $127 billion may spend $110 billion, allowing some 13% or $17 billion to be added to savings. It further assumes the expenditure of $3 billion from accumulated savings, bringing the total outlay to the required $113 billion for absorption of a like amount of available goods and services. Of the latter, $18 billion would be spent for consumer durables, $60 billion for non-durables and $35 billion for services, increases of 50%, 20% and 30%, respectively, over 1941 levels after allowance for price rises since that year.

On basis of 1941 consumption trends which should closely approach the post-war pattern of consumer spending, the alternate total of $120 billion of available consumers' goods and services might be divided into the following consumption pattern: Outlays for durables $12.5 billion, non-durables $56.2 billion and services $36.2 billion, while $20.1 billion or 16% would go into savings. The latter is probably too high and durable goods spending conceivably somewhat too low, in view of the expected emphasis on durables goods buying after the war. We have therefore reduced savings to a rate comparable with that in the FRB projection and proportionately increased projected spending *(Continued on page 53)*

Gross National Product and Expenditures

	($ billions) 1939	1941	1943	Post-War Projections (V plus 2) FRB	Alternate	
National Income	70.8	96.9	148.0	140.0	140.0	
Nat. Gross Product	88.6	119.6	186.5	170.0	170.0	
WHEREOF:						
Govt. Expenditures (total)	16.0	26.0	93.3	30.0	30.0	
Fed. Govt. (total)	7.9	18.1	86.2			
Defense	1.4	12.8	81.3			
Non-defence	6.5	5.3	4.9			
State & Local Govts.	8.1	7.8	7.2			
Output available for private use:	72.6	93.6	93.1	140.0	140.0	
Private Gross Capital Formation:	10.9	19.0	2.2	27.0	20.0	
Construction:	3.6	5.4	1.7		7.0	
Residential	2.0	2.9	0.8	7.0	5.0	
Other	1.6	2.5	0.8		2.0	
Producers durable equipment	5.5	8.9	3.1	15.0	8.0	
Business inventories	0.9	3.5	—0.5	3.0	3.0	
Net exports	0.8	1.0	—2.0	2.0	2.0	
Consumer's Goods & Services:	61.7	74.6	91.0	113.0	120.0	
Durables	6.4	9.1	6.5	18.0	16.2	
Non-durables	32.6	40.1	55.2	60.0	56.2	108.6*
Services	22.7	25.4	29.2	35.0	36.2	

*Leaving spending deficit of $11.4 billions

WHAT HIGHER WAGE TRENDS WILL MEAN

The Conflict Between Needs for Post-War Buying Power and Inflationary Threats

BY LAURENCE STERN

THIS is the first war during which labor has enjoyed a large gain in real wages. In that notable respect it is something new under the sun. Contrary to popular impression, the relative economic position of wage workers was not appreciably improved within the World War period 1914-1918.

What happened was this: The average hourly earnings of skilled and semi-skilled factory workers increased 135 per cent and their average weekly earnings 128 per cent during the period of war-time inflation, but virtually the whole "gain" was absorbed by the higher cost of living. However, at the lowest wage levels reached in the early post-war deflation labor retained nearly 70 per cent of the war-time increase in hourly wage rates and 64 per cent of the increase in weekly earnings. These permanent gains in money income were translated into a large gain in real wages in subsequent years as the cost of living declined.

In short, the First World War gave labor a claim check on the fruits of future industrial productivity, but it remained for the peace years to make the check good.

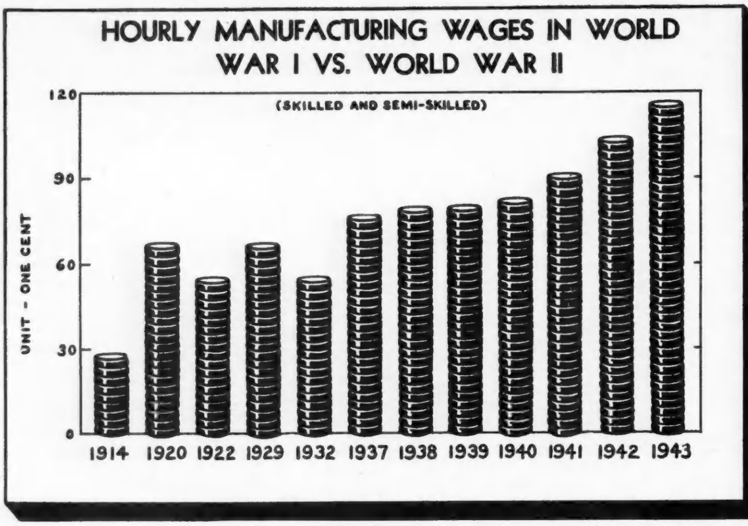
The difference in the present war has been phenomenal. In July, latest month for which Conference Board data is available, average weekly wage earnings in 25 manufacturing industries amounted to $48.87. This was 79.1 per cent above the level prevailing in August, 1939, just before start of war in Europe. After allowance for the war-time rise in living costs, real weekly earnings were 43.3 per cent higher than in August, 1939.

The striking thing about this is not only the contrast with 1914-1919 experience. Perhaps even more notable is the fact that *during* approximately four years of this war real wages increased more than they did in eight years of expanding industrial activity *after* the last war. From the depression year 1921 through 1929 the gain in real earnings was 19.5 per cent, considerably less than half of the 43.3 per cent figure heretofore cited for World War II to date.

Organized labor perhaps is highly pleased with the "breaks" that it has had—but being pleased and being satisfied are not the same thing. Labor definitely is not satisfied with the status quo. Recently it has made the matter of national wage policy an issue of increasing agitation and debate. The real issue is no longer the "Little Steel" formula and wage stabilization, for it doesn't have much to do with the relationship of present wages to the cost of living. It is of more basic significance than that.

Labor is striving to "nail down" the largest possible part of its war-time gain in money income and to establish now, while its bargaining power is perhaps strongest, the highest possible structure of hourly wage rates as a partial offset to the coming decline in wage income as a result of shorter hours, loss of over-time pay, downgrading in jobs, etc.

Quite naturally, the motive is self-interest; but candid avowal of it would not be good "public relations" policy for the unions. The drive for higher wage rates—and various other union objectives—requires a more appealing coloration than group interest. So it is being put for-



ward as a drive to maintain "mass purchasing power" in the interest of post-war prosperity.

There is good reason to believe that from this point of view the Administration is sympathetic, and that a change in its "wage thinking" is in the offing. However, the question of *when* it will switch from the "anti-inflation" policy of wage limitation to the "anti-deflation" policy of fostering higher wage rates is still uncertain as this is written.

While politics may figure in the reckoning to some extent, it is only fair to emphasize that this can hardly be the controlling consideration, at least so far as the timing of wage increases is concerned. There is a more weighty reason that may make for further temporization. It is the uncertainty as to when the war in Europe will end—for that holds the answer to the question of whether we are near or still some months away from the beginning of the reconversion deflation whose impact the Administration and organized labor—and all of us, for that matter—would like to see mitigated so far as possible.

The Administration's concern over inflationary potentialities is very genuine. Otherwise, in his very recent public speech, the Director of War Mobilization, ex-Justice James F. Byrnes, would not have taken this occasion of rising wage agitation to emphasize his conviction —without commenting specifically on the "Little Steel" formula—that present controls on wages, prices and rationing must be kept at this time; and that the "line" against inflation must be held until the danger of inflation has passed.

Despite the fact that union spokesmen, headed by CIO Chief Murray, have confidently predicted that the "Little Steel" formula would soon go "out the window," such evidence as we have suggests that the War Labor Board's "public" members, who have the controlling voice, continue thus far to believe that the present needs of inflation control should take precedence over the future needs for deflation control.

This is not to say that they are certain to refuse any concession to labor's demands. It is believed likely that, following well-established precedent in such matters, the issue will wind up in the lap of President Roosevelt. The writer will not venture any prediction of his decision. Obviously, he *might* do any one of the following:

(1) Answer with a flat no, and a new appeal for labor's cooperation in holding the line against inflation. Few in Washington seem to expect this.

(2) Grant steel workers a "moderate" increase, treating the matter as an individual case "on its merits" and not to be taken as opening the door to general wage raising. The supporting argument would be that steel profits justify the increase, that no increase in steel prices would be necessary and hence that the decision does not break the anti-inflation "line." Washington observers seem inclined to bet even money, or better, on this. By coincidence—or perhaps not—a nicely timed OPA study of steel costs and profits purports to make a case for just this policy.

(3) The President might decide that the time had come to end the wage limitation policy and, on the "purchasing power" theme, to favor raising the wage-rate structure generally as an "anti-deflation" measure. Mr. Roosevelt is in a better position than the rest of us to judge, or guess, when peace may come in Europe. Unless he believes it is very near when the steel wage issue reaches him, this course seems doubtful to the writer.

(4) The President might adopt an "anti-deflation" wage rate policy now but with the provision that the increases are not to go into effect until after the defeat of Germany.

If the decision is on the basis of expediency, the most logical possibilities would seem to be either that outlined under (2) or that under (4). If it were decided on the basis of economic plausibility it would more likely be (4). That would give labor what it claims now to be seeking: namely, a partial offset to shrinkage in "take home" pay when the war production cutbacks begin in a big way. On the other hand, it would avoid breaking the anti-inflation "line" while the war in Europe continues.

The Matter of Inflation

True, the supply of civilian goods will not be immediately, or even quickly, increased after the defeat of Germany. For this reason there'll be continuing inflationary pressures until civilian supply is adequately increased—but in no event will price controls and rationing be suddenly ended; and these, along with the common sense restraints on spending that our people have adopted voluntarily, have been the most effective brakes on inflation. With retention of price ceilings and rationing, the psychological environment after V-E Day will be less favorable to inflation than now. Finally, with wage income trending down despite the partial offset of higher wage rates—and with farm income also either receding or getting ready to do so—the *economic* pressure making for inflation on the purchasing power side would be less than now.

It can be argued that the imposition of higher wage rates on industry at the very time that production is declining sharply would tend to aggravate unemployment. That is true. If wage costs were jacked high enough to impinge *greatly* on the profit potentials in civilian production, that would kill jobs galore; and we might just as well get ready for the post-war depression. But so far as the effect of higher wage rates on post-

war employment is concerned, the central question is not whether they take effect now or after Germany is defeated but whether in an economic sense they are "valid" at all in application to civilian production.

Either our prospective post-war economy will "support" a higher industrial wage structure or it won't. If it won't, the adverse effects of higher wage costs upon peace-time production, prices and jobs would be pretty much the same whether higher rates became effective now or after victory in Europe. The chief difference is that their deflationary impact on employment would be deferred as long as the Government is buying all, or a major part, of the output of all manufacturing industries, and footing their wage bills out of taxes on the general public and borrowing.

The Purchasing Power Theory

The "purchasing power" theory advanced to support the cause of higher wages has some merit—also some serious limitations. *In any kind of an economy a rise in wages must be at the ultimate expense of the consuming public unless it is paid for out of increased productivity per worker.* That's really the whole story in a nutshell. If higher wages result in higher unit costs of production, one of two things must happen: (1) profits will be squeezed, there will be less productive investment, fewer people will be employed, employers will be under that much more pressure to seek reductions in unit costs through technological innovation wherever possible; or (2) prices must increase, which is at the expense of real wages and the general living standard.

Large as it is, organized labor is a minority group within the gainfully occupied population. There are large groups whose earnings can not be significantly increased through greater mechanized productivity or otherwise. Therefore "purchasing power" gains for wage workers—if paid for out of increased prices—reduce the purchasing power of the considerably large numbers of consumers who make up the rest of our economic community.

Judging by past experience, the adverse consequences of wage increases that are economically excessive in scope or speed are somewhat more likely to be those of point No. (1) heretofore cited: namely, squeezed profits, less productive investment, increased unemployment and more intensive mechanization than those of point No. (2): namely, higher prices. We can, of course, have both in combination. As a practical matter, however, in almost all industries the effort to maintain adequate profits will center chiefly and first on No. (1), with higher prices the last resort.

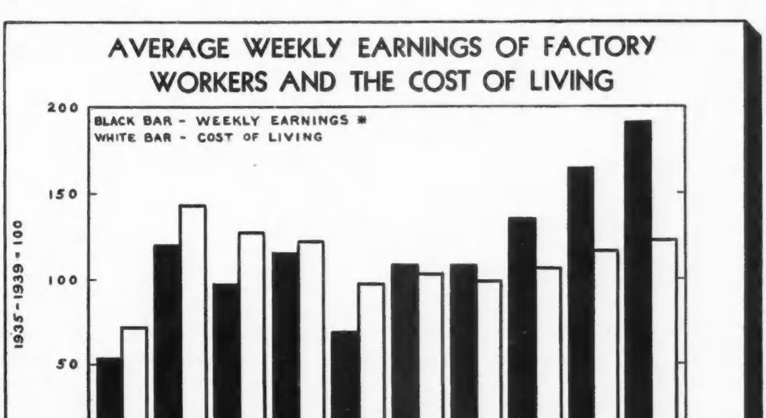
In the pre-war year 1939 real weekly wage income, on an average, had reached what was up to then an all-time high exactly 50 per cent above the 1913 level and about 16 per cent above the figure of 1929; while real hourly wages were 73 per cent above 1913 and 33 per cent above 1929. Isn't that wonderful? Don't be too hasty in answering that question.

Let's look at it a little closer. *Such labor as had jobs* had improved its position greatly. But the per capita national income, adjusted by the most of living, was $646 or about 5 per cent *less* than in 1929 and less than 10 per cent greater than in 1913—and there was *an average of over 9,500,000 persons unemployed.* With respect to national prosperity and "full" employment—for which one of the key ingredients is long-term expansion of productive investment—the record cited here does not make out a very good case for the "purchasing power" theory of wages as it is interterpreted by organized labor. It suggests that the gains of *employed* labor since 1929—in which year unemployment averaged only 429,000—were partly at the expense of the rest of the community, partly at the expense of the unemployed.

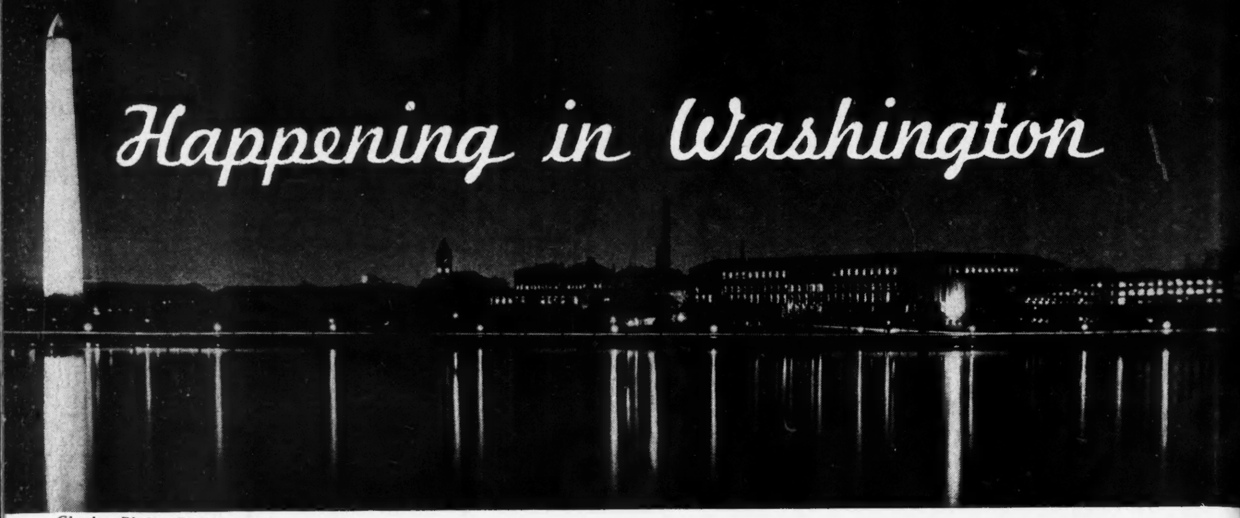
From 1929 to 1939 the output per man-hour in manufacturing industries increased by approximately 32.7 per cent or an average of roughly 3 per cent a year, while hourly earnings of skilled and semi-skilled labor increased by about 21 per cent of 2.1 per cent a year. Here labor claims a point: its long-term gain in wage rates did not outrun man-hour productivity.

Year to year, or short-run, changes in the productivity of labor are affected by many influences other than mechanization. Only the average over a reasonably extensive period can be taken as an accurate measure of the rate of increase in productivity per man-hour through "technological progress." It appears, however, that—despite all the "ain't science wonderful" developments of recent years—there is no significant trend toward acceleration of the annual rate of advance in productivity. The increase, for example, in three years from 1936 through 1939 was about 8.4 per cent or average of 2.8 per cent a year; *while over the same three years average hourly earnings of wage workers increased 17.2 per cent or average of not far under 6 per cent a year.*

Many reasons can be cited why job-making private investment was lagging in the pre-war years. This is one of them: wage increases over double the advance in productivity per man-hour during the three years just before the start of this war. During the three years 1941-43 output per man-hour increased 10.9 per cent or by an average of 3.6 per cent a year. This is only slightly above the normal increment. Over these three years, hourly wages increased 37.2% or by 12.4 per cent a year. There have been many notable technical innovations in war-production but not all of these are applicable to civilian production. Where they are applicable, it will take time to realize the benefits as reflected in reduced unit producing costs achieved. *(Please turn to page 47)*



Happening in Washington



Charles Phelps Cushing Photo

By E. K. T.

INTERNATIONAL commodity markets are being affected by the speculators, especially foreign, on a basis never before imagined and Washington authorities who could do something about it are weighing the value of a "Good Neighbor" policy that tends during wartime to build an inflationary price structure. The coffee situation nearly brought the bad feeling into the open but was corrected in time—a matter of hours. High-placed government men believe a half billion dollars could correct the market and they're wondering.

Washington Sees:

Confusion so confounded as almost to suggest that some of it might be intentional has gripped the Capital once again.

War surplus disposal and reconversion laws have been enacted and signed with an unwilling pen by the President, who added fuel to the flames of doubt by a scathing denunciation of their potency. The inevitable result must be pressure from many sides to amend and revise, to open the path to special pleadings.

And their administration will be affected for a certainty by the resignation of James F. Byrnes and the necessity of swapping horses, if not in mid-stream then at its banks.

As if that were not enough, a bi-partisan bloc of Senators has set out to scuttle the program by attempting to make reconversion effective only where it benefits their constituencies—to junk the war plant of the industrial northeast. That drive is not taken lightly here. It has appeal—withal selfish appeal—to a large segment of the Nation.

Added, too, is confusion stemming from political speeches and writings, suggesting wages can be raised, taxes lowered, the public debt paid off—all simultaneously.

There are too many irons in the fire even for an ambidexterous politician to handle without searing.

DESPITE the fireworks which have been brought into the campaign it is increasingly obvious that the Dewey camp will try to win on the issue that a man Boss Prendergast lifted from anonymity shouldn't get too close to the Presidential chair. Such an issue raises indelicate references to F D R's health and could boomerang on that score. But the pace is quickening, Dewey is trailing, and the G O P shows every sign of "shooting the works."

AMERICAN POLES aren't convinced another partition of their homeland doesn't lie ahead and, while the time is short, they will become articulate before election. They could count importantly, too, in three key states—New York, Pennsylvania, Illinois; elsewhere could be a factor. But they don't know where to mass their strength. Neither political party has offered an anchorage for Polish hopes and Stalin remains inscrutable on the point.

INDICTMENT of an officer of the Committee to Uphold Constitutional Government for refusing to reveal to a House committee the names of donors to the work of CUCG raises points of unusual interest. The Committee says its work is in promotion of a political philosophy, but the House group says its shots have been aimed solely at the New Deal, even though no party and no candidate have been overtly indorsed. On the outcome of the trial depends whether a dozen other related Committees must bare their records.

INSURANCE companies can hold little hope that the Supreme Court will reverse its position and declare insurance is not interstate commerce and therefore not subject to the Sherman Act. What hope lies, reposes in Congress; and there's little indication that the lawmakers will take positive action at this session. Regardless of the election outcome, there'll be an unusually large number of "lame ducks" still around. They won't be in a working mood and the legislative session for all practical purposes can now be counted dead.

AS NE GO TO RESS

No one has established who cast the first brick, but everyone in the Capital is agreed that the Presidential campaign will go into a whirlwind finish with no oratorical hold barred. On the basis of the record, F D R must be given the edge in the field of practical politics.

Labor unions have arrayed imposing tables and graphs to support departure from the Little Steel formula, but the Department of Labor is ready to prove that living costs have risen 25.3 per cent while weekly earnings of salary and wage earners have gone up 51.3 per cent.

. On schedule, Donald M. Nelson resigned as chief of the War Production Board as soon as he arrived in Washington after a five-weeks visit in China. J. A. Krug, moved up from acting chief, takes over with a background of no experience in private business but an outstanding record of success working for the government.

Nelson's new assignment is to promote world trade in this country's behalf. The job isn't easily described, because it is virtually non-existent. Nelson will do some traveling, conduct a few conferences, return to private enterprise.

Local transportation is seriously threatened by increasing difficulty in maintaining services. The Office of Defense Transportation and the War Manpower Commission can see no ray of light in the sky settling over the winter months. Fuel delivery is involved.

Government payroll is being slashed--sharply. In August, 35,000 persons were cut from the rolls. It wasn't intended, as a matter of fact, to cut down--the Civil Service Commission has requests now for 25,000 additional workers.

"Peace jitters" has struck the government the same as it has hit private enterprise. The Pentagon Building, where the War Department houses a small city (35,000 persons) is losing 200 employees a day. Many, certainly not all, are school teachers and students returning to normal pursuits.

More significantly, R F C is losing functions. Where that happens there is no replacement. Unless Congress appropriates specifically, the following activities will end January first: rubber development, metals reserve, petroleum reserve--possibly even defence plant corporation.

War Production Board, too, is quietly "disarming." Its conservation division will be one of the first to go. Office of Censorship will drop its entire border staff when Germany falls and that means at least 5,000 more off the Federal payroll. O W I will do the same; fold completely six months after Japan is crushed.

Several top spots, notably in reconversion and surplus property, are unfilled. Prospective appointees don't want to take over with an election only weeks away. The occupational fatality rate is too high; private enterprise too attractive just now.

Rumors of retirement of Secretary Henry Morgenthau, jr., from the Cabinet have been revived as a result of his ill-timed suggestion that Germany be reduced to an agricultural state after the war. President Roosevelt will publicly repudiate before election, but Morgenthau is sure to stay until the ballots are counted--but possibly not long thereafter.

Fact of the matter is that Morgenthau didn't go as far as many close Presidential advisors would. His assertions were--as many of them have been in the past--unpolitic, untimely, and an invasion upon the premises of other government agencies, such as state, war and navy departments.

Justice James F. Byrnes is making a fight against revision of the Little Steel Formula his swan song as Director of War Mobilization. It is a losing fight. But it typifies the Byrnes policy of ''hold-the-line'' until the war is over.

The former Supreme Court justice takes a practical viewpoint, eschews the advice of ''long-haired economists'' in public office. The latter, he says, ''can always tell you what is going to happen after it happens.''

Current demands for standard rates on communications to foreign points have more to them than mere declaration of national policy. It means merger of communications companies; it means savings in business communication without which foreign business might be wholly neglected.

For some unexplainable reason, a system has grown under which the United States pays disproportionate rates on international communications. Lack of monopoly is stated by some as the reason, government subsidy by others. But treaty provisions may hold the cure.

Congress is about to break down and admit the possibility that all knowledge does not repose in its membership. The Smith Committee studying affairs of government agencies is building up a permanent staff of analysts and researchists, is suggesting that the policy be generally adopted.

Difficulty in interpreting congressional intent--in fact, congressional actions--has been a fruitful field for the legal practitioners despite the fact that congress is overwhelmingly made up of lawyers. More carefully drawn laws would result, says the Smith committee, if left to skilled, objective draftsmen.

The Russians have departed from the Dumbarton Oaks conference and the Chinese have moved in. Just why the meetings had to be divided into two parts has never been satisfactorily explained. First, they deal not with war but with post-war; second it has been a matter of public notice for many months that the United States and Britain on the one hand, and Russia on the other, have joined to defeat the Axis.

Underlying fact which our State Department prefers to let lie is that China's prestige, militarily and otherwise, is at very low ebb.

China is in deep distress after seven years of war. America's interest in a strong China is greater than that of any other member of the Allied Nations. That makes the new phase of Dumbarton Oaks more important--potentially more costly--than what has transpired up to now.

Look for a spurt in army inductions as the war comes to a close--not a close as soon as the facts indicated might be the case a few months ago. Military services are going to need more men to service the process of returning those who have borne the brunt of warfare. The new inductees will not be trained for the line.

The price for Senate seats has reached a high point, if reports to the campaign expense investigating committee are supported by facts found in a study of the recent Arkansas primary. The job pays $10,000 a year or a total of $60,000 for a full term. One candidate reputedly spent in excess of $150,000 in Arkansas. And he didn't win at that.

Aerial panorama of Buenos Aires

Moore-McCormack Lines

ARGENTINA—Sour Note in Concert of South American Nations

BY V. L. HOROTH

THE order of our State Department prohibiting the northbound American ships from picking up Argentine cargo and the instructions issued to the Foreign Economic Administration to restrict export licenses to a minimum, point to a further deterioration of relations between the United States and Argentina. The granting of import licenses has already been restricted for some time. Only a step separates these developments from economic sanctions.

The average American business man who is beginning to think in terms of post-war trade, though wholly unsympathetic to the ultra-patriotic, swastika-stamped military clique, now ruling Argentina, is inclined to question the advisability of these steps, however effective as a diplomatic weapon, particularly since they are applied by this country alone. Serious long-range consequences in diverting permanently a part of our regular commerce with the River Plate Republic to other countries, might follow a further deterioration of our relations with Argentina and even more so, of course, the conceivable imposition of economic sanctions.

In the years just prior to the Second World War, Argentina was one of our best customers, taking about one sixth ($85 millions) of our total exports to Latin America which averaged about $540 million in the 1937-39 period. Last year, partly because of our inability to ship goods, and partly because of the imposition of restrictive measures, our exports to Argentina dropped to about $32 millions, and this year on the basis of the first six-month figures, they will probably fall below $30 millions. On the other hand, our imports from Argentina in 1943 were $145 millions or nearly twice as large as in the last pre-war years. Since the bulk of our imports from Argentina, consisting chiefly of hides, corn, and wool, has been carried by Argentine and Norwegian ships, the import trade may be maintained near the present level, provided, of course, that Argentina does not withdraw its ships as a retaliatory measure.

While Argentina is at present selling us about four times as much as she is buying from us, the post-war possibilities point to a great expansion of our exports. The country's purchasing power has grown considerably, and it has been estimated that its national income, which before the war was about 10 billion pesos (around $2.5 billions) has by this time doubled. Judged by the difficulties of Argentine railways, public utilities and some of the industries to keep going, the deferred demand for machinery and transportation equipment, which were our principal exports to Argentina before the war, should exceed all anticipations. There should be new outlets too, especially for motor cars, the highway facilities having been greatly extended in the last five years. Argentina's post-war need of motor cars has been put as high as one million cars, which is about three times the present registration.

Moreover, Argentina is one of the countries which will have ample transferrable resources with which to pay for post-war imports. Her gold and foreign exchange holdings have been built up during the war from about $450 millions in 1939 to almost $1,200 millions at the end

Foreign Investments in Argentina in 1941

(Millions of pesos)

	British	American	French	Belgian and Dutch	Other	Total
Government (public) debt	872	716	—	21	142	1,751
Railways	3,323	—	400	—	—	3,723
Light and gas companies	119	197	—	959	—	1,275
Manufacturing industries	292	258	7	18	13	588
Street cars, ports, etc.	272	31	46	—	40	389
Telephone and radio	—	338	—	1	32	371
Commerce	210	73	2	6	23	314
Packing houses	150	146	—	—	—	296
Banks	33	9	21	9	63	135
Land and agriculture	117	—	1	4	—	112
Others	64	3	3	32	—	102
Total	5,442	1,771	480	1,050	313	9,056

According to the figures prepared by the Banco Central, Reprinted in Foreign Policy Association Report "Argentina in Crises", May 1, 1944, Vol. XX, No. 4.

of 1943. If the current rate of exports is maintained, the total for 1944 may come to 2.5 billion pesos (about $750 millions), one of the highest figures on record. This may mean an addition this year to the existing gold and foreign exchange resources of about $500 millions, an amount roughly equivalent to the possible export surplus. It is estimated that the combined resources reached the level of about $1.4 billions in July 1944.

While the lack of enthusiasm on the part of our business for economic pressure on Argentina is undoubtedly due in part to the fear of disturbing our export chances after the war, the criticism of Sumner Welles, the former Under-Secretary of State, has also raised doubts as to the wisdom of our policy. Mr. Welles, whose insight into Latin American affairs is beyond question, argues that General Farrell, who heads the present Government of self-appointed army colonels, has misconstrued our policy as interfering with Argentina's sovereignty. In fact, the General has already used it as a rallying point for his fascist-inspired Government, even though broad masses of Argentine people have been right along wholeheartedly for the United Nations and democratic institutions.

Perhaps a more sympathetic understanding of the psychology and of the intense native nationalism of the Argentino, who feels himself the logical defender of Latin American culture in the Western Hemisphere against the Anglo-Saxon, would have avoided many a misunderstanding. The seeming inconsistencies of the situation in Argentina can perhaps be best explained as symptoms of "national growing pains" or of "an adolescent resisting parental advice." *But, it must not be overlooked that the clique of extreme nationalists in power at present is violently anti-foreign capital and deluded by visions of Argentina establishing political and economic domination over her neighbors. We are facing the first Latin American imperialists.*

Since the problem of Hemisphere leadership and solidarity has not complicated the British-Argentine relationships, Britain's policies toward the country have appeared more conciliatory, even though some of the anti-foreign capital measures of the Farrell regime, such as the expropriation of the British-owned Buenos Aires waterworks last May, have cut more into British interests than into ours. The British recalled their Ambassador as we did, but in recent months they have chided us for our attitude, pointing out that we have not done much about Sweden or Finland which were far more pro-Nazi in acts than Argentina. The *Economist* has been worried about the possibility of economic war between the United Nations and Argentina, in which, the *Economist* feels, the former have much more to lose. It also points out that other Latin American countries may, in case economic sanctions are imposed, face a delicate decision as to what stand to take.

Probably as a matter of solidarity with us, the British have not yet renewed the contract under which they were buying all exportable meat surpluses from Argentina. It has been rumored that they will sign a four-year agreement, but apparently the purchases continue to be on a month-to-month basis. However, despite various stumbling blocks, Argentine exports to Great Britain are up at record levels and may reach this year, if the first six month rate is sustained, a total of more than 900 million pesos, some 200 million pesos more than in 1943.

With imports from Great Britain only about half as large as last year, the pospects are that Argentina will accumulate this year an export balance of at least 800 million pesos. In 1943, with an excess of exports to Great Britain of about 500 million pesos, Argentina's holdings of blocked pound sterling in London rose by the equivalent of about 400 million pesos to a total of 714 million pesos (about £53 millions). Hence, chances are that by the end of this year the blocked pounds held for Argentine account in London will exceed £100 million.

Anglo-Argentina Relations

All this means that Argentina, in order to unfreeze the blocked sterling and at the same time to recover the credits built up through current exports, will be compelled to "buy British." Or to put it the other way round, the British will have to increase considerably their exports to Argentina, not only to settle the blocked pound debt and to pay for current purchases, but also because they will be getting fewer pesos from their Argentine investments with which to pay for imports.

Although these investments were put at more than 5½ billion pesos in 1941, as will be seen from the accompanying table, the interest and dividends that are being withdrawn were estimated by the Argentine Central Bank at only about 200 to 250 million pesos in recent years. There have been practically no returns from large railway and street car investments and since 1941 the more lucrative investments have been sold either to the Argentine or American interests. All factors taken into consideration, the British—if they want to maintain their purchases of Argentine goods at the pre-war level of about 700 million pesos and besides to repay their war debt—will be forced at least to *double* their pre-war exports to Argentina.

There is feeling in some quarters here, where the memories of the pre-war conflict between British and American interests in Argentina are still strong, that the British are not particularly interested in seeing the misunderstanding between Buenos Aires and Washington cleared, so that they can entrench themselves in the Argentine market. British capital has unquestionably regarded the growing American interests in the country as a challenge

to its dominance. The truth is, however, that it was our capital, our machinery and equipment that really set Argentina on the road to economic emancipation. But the British must have realized by this time that the first and foremost aim of the nationalist Government in power at present is to shake off whatever hold their capital still has, and that, moreover, the changes in the creditor-debtor relations are placing the Argentines in a good position to do so. Hence, they have, in the long run, more to gain by being with us than against us.

Background Factors

One may begin to explain the successful seizure of power by a group of fascist-inspired officers with anti-foreign capital predisposition by pointing out that the basic underlying factor was the change of Argentina from a semi-colonial economy, ruled by a group of feudalist, land-owning families and producing raw material and farm surpluses, into a modern, well diversified economy with a growing and prosperous middle class.

There have been also a number of other forces at work, political, social and even psychological, all of which have contrived to make the situation in Argentina extremely complex and difficult to understand. In this connection, one is reminded of a story with which John Gunther prefaced the story of Argentina in his book "Inside Latin America." According to him, a newly appointed Ambassador to Buenos Aires apparently met one of his colleagues, remarking, "I have been here six months, and I understand nothing," to which the other Ambassador is said to have replied: "My friend, I congratulate you. Your perceptions are quicker than mine. I have been here six years and I have now reached the same conclusion."

The change that Argentine economy has undergone is perhaps best illustrated by the contribution of industry to the value of national production. In 1942 it was more than twice as large as in 1935, and it now exceeds the contribution of agriculture, the share of which increased only about 25 per cent in the 1935-42 period. The manufacturing industries other than those based on the processing of farm products now employ over one million workers, or about 2½ as many as they did nine years ago.

Argentina has made herself into the second most industrialized nation in Latin America (Brazil moved to the first place during the present war), not only in spite of the lack of good coal and iron ore, but also in spite of the opposition of the land-owning aristocracy. Organized with their retainers into the so-called Conservative Party, the land and beef barons ruled the country, with the exception of the Yrigoyen and Alvear Presidency, for over one hundred years up to 1943, most of the time by "fixing" elections, there being only about three honest elections in the whole Argentine history. The landholding oligarchy has, as a rule, been for free trade and against industrialization, since it was chiefly interested in cheap labor and in selling farm surpluses. Moreover, the land owners were always pro-British, since the British were the best customers and their capital had been responsible for the building of railways, ports, public utilities, and for the general development of the country.

However, a succession of agricultural crises resulting from declining farm prices gradually undermined the paradise in which the land-owning families were living, and with the breaking up of large estates came also the weakening of the power of the landed gentry over the Argentine economy. But the various crises had the very opposite effect on the establishment of manufacturing industries. These were being encouraged, partly because the peso devaluations made foreign goods too expensive and partly because the lack of foreign exchange forced the country to rely more and more on its own resources.

The industrial expansion was accompanied by the growth of urban middle class which naturally opposed the policies of the landholding oligarchy. This opposition was organized into the so-called Radical Party, and following an electoral reform in 1912, it was swept into power in 1916. Though the Radical Administration stayed till 1930, it was divided and weak, and, as it turned out, also quite corrupt and ready to participate in underhand deals with foreign capital. Since its ousting, the Radical Party, which came nearest to being the small people's party, has been leaderless and temporising.

Once again in the saddle, the Conservative Party proceeded to assure the country of the British market for surpluses of meat and corn. But the British, forced to make the best of their shrinking resources drove a hard bargain. It appears that the now famous Roca-Runciman Treaty of 1933, had verbal clauses under which the British were given a practical monopoly of Buenos Aires City transit, a promise that no highways would be built to compete with their railways, and, finally, a low quotation for the pound sterling in terms of the peso in order to promote purchases of British goods.

The concessions of the Conservative Party to the British aroused the protests of native industrial interests, and among the younger generation the resentment eventually spread to all foreign capital which they accused of interfering with the country's growth and economic emancipation. Meanwhile the successive Conservative Administrations grew more (*Please turn to page 50*)

SMALL COMPANIES WITH STRONG GROWTH PROSPECTS

BY WARD GATES

THE post-war business cycle is likely to be productive of a bigger crop of growth companies among smaller enterprises than the period between the two world wars. During earlier phases of our economic development, pioneer industries, of which the past has seen many, usually held best growth prospects and usually presented fairly clear-cut situations. Today, relatively few pioneer industries exist and above all, no new industry is in sight that might, in the post-war future, match the economic importance of the growing automobile industry after World War I. Rather, growth prospects today rest in the potentials of a multitude of new products, new processes and varied innovations in many fields and, perhaps even more important, in the outlook for a strong and permanent expansion of our economy as envisaged after the war.

On this premise, we may expect the emergence of quite a number of genuine growth companies, that is companies whose earnings move forward from cycle to cycle and whose progress is only temporarily interrupted by depressions. What with the prevalent trend against further industrial concentration, it will be the smaller companies of today which will become the real growth companies of tomorrow. Growth of course is a normal experience on the upswing of the business cycle, especially in a post-war era of high national income and large demand potentials based on sizable backlogs in many industries. The acid test will come later when competition begins to sharpen as the business cycle enters its downward swing.

Today's companies with growth characteristics may be divided into two main types: (1) Those active in industries where genuine growth factors exist, that is principally new industries. (2) Those who will profit from and grow on post-war potentials leading to better entrenched trade positions.

In pioneer industries, rapid volume growth was usually attended by heavy speculative losses to the investor. Examples are the radio, air-conditioning and early automobile industry where earnings were kept lean either by heavy development costs or murderous competition. Relatively few such dangers appear to threaten in the future as in many fields, war-supported research has done much towards minimizing the development cost factor. Instead, we may increasingly face the peril arising from overexpansion in highly competitive fields. In the past, it was one of the most difficult things to determine when a company, or industry, passed from the pioneer stage to steady business growth. This difficulty of course will always exist; even today some vigorous expanding industries have not yet entered the charmed circle of investment maturity despite surface indications to the contrary, often misleading.

Fact is that in the search for real growth companies, the usual canons of sound investment analysis are not enough, such as past record, dividends, working capital ratios, etc. The investor must become a student of rapidly changing situations, and research into the framework of business enterprise against its background of industrial, technological and scientific changes is essential.

In his search for reasonable freedom from risk of capital, the investor must indeed look to the past but he cannot accept the past as the sole criterion. Under propitious circumstances, the future as it develops may improve very considerably over the past, even a drab past, though there, too, may lurk danger. Some companies with apparent real growth prospects may become for a time brilliant successes only to encounter later serious difficulties. This particular danger may be especially pertinent to the post-war era when a temporary sellers market may indeed produce a goodly number of "brilliant successes" who later find it difficult or impossible to stabilize operations on a satisfactory basis. There is no question that with the advent of the post-war era, the scene is set for many fundamental changes, affording eventually a clearer idea of where real growth companies may emerge. Reconversion will produce a good many important shifts in industrial boundaries and for a time the outlook will be greatly obscured. As far as many smaller companies are concerned, their's will be one important advantage. They will get off to an even start with the leaders of their fields, perhaps even to an earlier start, and where demand backlogs are large, they are in a position to establish a market for their goods potentially greater than pre-war.

For a while, demand almost certainly will be in excess of the ability of a given industry to supply immediately or without too great delay, and smaller companies should benefit accordingly as goods-hungry customers will turn to less well-known products rather than wait until the big leaders can catch up with demand. This may be especially true in the automobile field where the leaders may have to yield a larger share of the post-war market to the smaller independents. The same will probably happen in most other consumer durable goods industries, providing a unique opportunity, if properly grasped, for many smaller companies whose pre-war record was either stationary or marginal. Thus General Electric and Westinghouse, the two electrical giants, may get a relatively smaller share of the market for the wide range of appliances they make while smaller manufacturers may forge ahead in the scramble for goods. There are other lines, no doubt, in which the industry leader for sheer inability to supply quickly the enormous demand may lose some of his pre-war advantage over runner-up competitors. Small but progressive companies well managed and well financed, will have a rare chance for sound expansion and retention of the resultant growth; the test of their ability will come with the turn from a sellers to a buyers market.

Other likely beneficiaries are companies which can profitably extend into the post-war era the advantage of valuable experience gained from war business or research. Moreover, the broader economy envisaged for

post-war should tend to make earning power in the consumer durable goods field less explosive than before, and the fluctuations of the business cycle relatively less extreme unless our economy should get badly out of hand despite the intensive planning aimed at greater stability. If the latter bears fruit, retention of post-war growth over the longer term is a far more likely possibility.

In looking for real growth opportunities, we must first of all look for industries where the demand trend is favorable, that is, expanding. This is fundamental, for no company can grow in a declining industry. We must look for differential advantages as to financial strength, modern and flexible plant, progressive and aggressive management to exploit the opportunities ahead. While persistence of financial strength during periods of depression is a favorable factor, it can no longer be made a major criterion as in the past.

After all, circumstances have changed. Many companies which fared badly during the depression and entered the war period with questionable finances have been able to recoup to a marked degree. After the war, they may do far better than their pre-war record would indicate. Finally, when the post-war race to supply the vast accumulated civilian needs begins, look for price policies, for they perhaps more than anything else may tell the investor where genuine and permanent growth may be expected. Declining prices even as volume expands is the touchstone of efficiency and sound merchandising but the decline must reflect lower unit costs rather than cutthroat competition. Successful diversification is another element making for growth and stability. Much will be done along this line after the war and the unscrambling of American industry may produce profound changes. The post-war cycle will prove whether such companies moved in the right direction.

The post-war era presents a unique opportunity to many smaller manufacturers, especially in the consumer durable goods field, able to profit from the experience gained in war manufacture, from enlarged plant facilities and the financial strength that generally came with active war business. The latter in many cases should make it possible for many to compete far more effectively with the bigger rivals.

In the automobile field, such independent producers as Studebaker and Nash-Kelvinator—the latter having the additional advantage of fairly wide diversification in the consumer durable goods field—will find the situation ready-made. Both have ambitious plans for increased post-war output which in view of the size of the demand backlog should not be difficult of realization. The crucial problem will be to retain all or part of the advantage thus gained over the "big Three." Can it be done? Past experience would argue against it but past experience can no longer be taken as the sole criterion. There are more positive factors. One is the strong expansion trend expected in our economy; another is the prevalent tendency against further industrial concentration. Also, these companies benefitted materially from war experience, both financially and technically. They are, when the war ends, in a better position to compete with their major rivals and with competent management should be able to translate all these factors into definite and permanent growth despite keener competition later, when the great buying rush has spent its force.

Similar opportunities exist in the automotive parts field, paralleling of course those in the automobile industry but markedly bolstered by the diversification trend long noted in this field. Such companies as Clark Equipment, Houdaille-Hershey, Parker Rustproof and Spicer Manufacturing should have no difficulty in "confirming" their earlier growth trend. Here, broadening of the earnings base by wise diversification has been an important factor. Budd (E.G.) Mfg. is an outstanding example, perhaps, of the potentials of companies whose pre-war record holds relatively little distinction. The company's war experience has been unique, leading to marked technical and financial improvements, and the company is looking forward to considerably higher post-

Smaller Companies with Growth Potentials

	Capitalization			Avge. Sales $ millions	Sales	Working Capital		Book Value per Sh.		Avge. Net per Sh.	Net per Sh.	Price Range	
	Debt	Pref.	Common	1936-39	1943	1939	1943	1939	1943	1936-39	1943	1936-39	1944
Apex Electric	—	0.552	0.287	8.614	9.159	1.500	1.941	$29.36	$30.43	$2.07	$2.39	42½- 8⅝	23½-13
Atlas Plywood	—	1.250	1.845	3.194	8.963	1.370	0.873	27.10	11.91	1.47	3.41	29½- 6¼*	14⅞- 9¾
American Bosch	—	—	0.692	6.546	50.090	1.809	4.092	6.76	12.47	d0.73	1.94	37¼- 3½	19⅜- 7¾
Allied Stores	20.430	21.903	1.676	106.541	203.718	27.317	42.067	33.49	17.70	1.04	3.17	21⅞- 4½	22 -14½
Budd (E. G.)	8.655	9.870	5.471	32.692	116.626	7.308	16.806	10.93	8.87	d0.11	0.89	15⅞- 2¼	12½- 5⅞
Bohn Aluminum	—	—	1.762	15.189	74.456	5.160	5.583	25.43	38.86	3.05	6.18	63⅛-15⅜	52⅞-45
Chicago Flexible Shaft	—	—	0.899	8.188	10.036	2.941	4.533	26.12	36.95	7.64	6.42	80⅝-33½	38¾-34
Container Corp.	—	—	15.625	22.654	61.163	4.709	6.386	24.45	30.64	1.54	2.80	37⅜- 9⅛	27⅝-20
Carrier Corp.	1.443	—	0.406	13.222(b)	27.829	3.126	4.974	13.37	13.48	d0.23	1.73	67½- 7⅞	19½-12⅝
Clark Equipment	—	1.792	4.811	10.595	77.036	4.033	7.790	35.81	48.37	2.86	9.94	48 -10⅝	47¾-35¾
Dresser Mfg. (a)	0.450	—	3.350	5.723	62.499	2.339	5.233	16.15	28.90	2.55(a)	5.53	17⅛- 6(a)	42¼-28¼
General Fireproofing	—	0.752	1.518	7.768	23.368	3.440	5.317	18.60	31.52	2.05	1.75	25⅜- 9	21½-14⅜
Gair, Robert	3.782	4.377	1.133	15.362	26.576	1.662	3.083	23.39	5.46	0.12	0.55	15⅜- 2	5¼- 2⅞
Houdaille-Hershey "B"	—	—	9.271	17.223	62.663	5.790	8.557	14.85	9.01	1.48	1.53	33 - 6	18⅜-13¾
Lee Rubber	—	—	0.680	12.777	25.236	6.268	8.674	35.72	51.45	3.43	6.18	37⅝- 9¾	44⅝-35
Maytag	—	3.486	1.406	13.828	15.686	4.843	5.951	4.62	5.57	0.44	0.15	21½- 3½	11½- 4½
Master Electric	2.900	—	0.250	3.672	20.196	1.672	4.650	10.39	14.49	2.37	3.20	28⅞-11½	29 -25¼
Minneapolis-Moline	—	10.988	0.700	14.160	40.851	10.259	12.689	20.57	25.90	0.18	1.42	16⅛- 2⅝	9⅛- 6¼
Mengel Co.	1.455	3.261	0.417	8.673	24.817	3.245	4.929	19.42	12.43	d0.22	1.40	16⅜- 3	15⅛- 8⅛
McGraw Electric	—	—	0.472	6.001	9.503	2.709	3.409	8.26	10.62	2.78	2.11	27 -10	32½-27
Mullins Mfg. "B"	5.000	1.438	0.546	7.662	21.604	1.094	7.974	9.00	6.01	0.25	1.01	19⅞- 4	10¼- 4⅛
Nash-Kelvinator	—	—	21.455	69.068(b)	184.936	21.447	33.495	8.97	11.41	d0.32	0.96	24⅝- 5(b)	17½-11½
Norwalk Rubber	—	0.438	0.202	2.631	5.984	0.863	1.064	5.66	4.46	0.31	0.65	6⅞- 1⅜	7 - 4¼
Oliver Farm Equipment	1.500	—	13.665	20.726	30.864	14.674	21.354	59.62	79.64	3.03	5.26	73 -14⅛	58¼-45
Parker Rust Proof	—	0.016	1.073	1.894	3.960	0.902	1.265	5.54	6.76	2.20	1.81	38 -11⅞	23½-18¼
Rheem Mfg.	1.655	2.605	0.643	6.152	54.864	1.124	5.521	11.14	10.65	1.65	1.82	20¼- 9¾(b)	18½-13
Sparks-Withington	—	0.363	2.251	5.164	20.014	1.793	2.624	3.39	4.43	0.07	0.64	9¾- 1½	7¾- 4⅛
Square D	—	1.600	0.421	6.702	45.710	2.877	4.212	11.54	16.96	3.50	4.97	48⅜-16	38¾-33¼
Studebaker	—	—	2.315	66.275	364.191	12.952	22.645	9.72	14.57	0.47	1.23	20 - 3	20¼-13⅞
Zenith Radio	—	—	3.609	18.157	40.051(c)	3.268	6.371	13.32	18.32	2.48	3.63	43¾- 9	44½-33¾

*Before 2 for 1 split. a—Incorp. in Dec., 1938. Therefore avge 1936-9 figure is the figure for 1939. b—1937-1939.] c—1942 Sales. 1943 not reported.

war operations both in the automotive and the railway passenger car field. For Budd, the post-war cycle should mean definite growth and progress, leading to a permanently higher earnings base and confounding those who would have the past, and the past alone, govern the future.

Bohn Aluminum and Doehler Die Casting are other examples of companies operating in fields where continued growth is indicated. In light metal fabricating, die casting, alloy casting and powder metallurgy (Fansteel), even roller bearings, growth trends are unmistakable and progressive companies should benefit accordingly. The coming of age of the aircraft industry under the tremendous impetus of war has much to do with intensification of this trend.

In the air-conditioning field, an industry now definitely out of the pioneer stage, Carrier Corporation and York Corporation may finally reap the rewards of long and unprofitable pioneering work despite expected keen post-war competition. With heavy development expenses largely a thing of the past, both should henceforth fare better. The post-war scramble for installations promises to be heavy and this should enable them to become further entrenched in their trade positions vis-a-vis bigger rivals.

Perhaps most typical of growth potentials furnished by war-time factors and the prospect of a broader economy are the opportunities facing the electrical appliance industry whose products are commonly regarded as the hallmark of a high standard of living. If post-war national income is to expand some 60% over pre-war, this industry in particular is bound to aim at, and retain, a considerably broader operating base, for such appliances, former semi-luxuries, quickly become necessities. Companies like Chicago Flexible Shaft, Master Electric, McGraw Electric should find it easy to top permanently their pre-war earnings growth. Others like Servel, Sparks-Withington, Sylvania Electric and White Sewing should be able to improve their pre-war record and retain at least some of the gain. To companies like Maytag and

Electric range plates, now scarce, will be produced in volume after the war, contributing to growth potentials of the electric appliance industry, which envisions a tremendous pent up consumer demand for household equipment.

Eureka Vacuum Cleaner Co., the war has given a new lease on competitive life. The past record of both has been erratic and Eureka's financial position remains doubtful. While it is hardly likely that either will ever become a genuine growth company, they may do better than before if promotional activities are successful and management alert.

The Radio Industry

The radio industry as such can no longer be viewed as a pioneer industry but despite enormous volume growth, the industry is still far from investment maturity. While companies such as Philco, Zenith and Hazeltine have attained a measure of earnings stability, others like Radio and Crosley have been highly disappointing from the investor standpoint. Most of these companies, barely out of the radio pioneering stage, have entered television and electronics, other pioneer fields. Thus while they may finally begin to capitalize on their long and costly activities in the radio field, the results may yet be compromised by the uncertainties surrounding the new fields, already highly competitive. These companies therefore still have to demonstrate their ability to show sustained satisfactory earnings and genuine growth prospects are bound to evolve slower. On the other hand, it must be noted that it will take relatively little to better their spotty pre-war record and the favorable demand outlook plus technical and scientific progress during the war form a favorable background for such improvement. Radio Corporation already is a huge enterprise and as such outside of the scope of this article. Zenith probably holds best growth prospects among the smaller runner-ups, thanks to aggressive management and intensive research especially in television and frequency modulation.

Hardly less complex is the competitive scramble in the Plastics industry, another popular growth industry. While there is undoubtedly a marked growth trend in the use of plastics, it will on the whole mainly benefit larger concerns where plastics usually are just one of several lines. Few companies, such as Catelin Corp. and some other relatively small enterprises, are exclusively active in the plastics field and in view of the consolidation movement constantly going on, it is difficult to predict their growth potentials except in a very general way.

What with large deferred demand for farm machinery, good export prospects and the growing trend towards mechanization of agriculture the world over, Oliver Farm Equipment and Minneapolis-Moline stand a good chance for permanent improvement, provided that post-war volume can be kept at a level high enough to overcome the leverage of relatively high overhead characteristic of equipment companies. Due to the latter and the cyclical character of the business, the past records of both companies have been on the erratic side. The demand outlook now is such that not only growth but greater stability of earnings in the post-war era is a likely possibility. As in all equipment industries, demand is derivative and one must look to the fortunes of the consuming industries to gauge the outlook. Agriculture, in this case, is certainly in a position to buy, at least domestic agriculture, fattened by high war-time farm income and protected by expensive price supports against any radical decline in cash income. Above all, the world-wide trend is towards greater mechanization of the farming process to offset rising labor costs. Domestically, this trend is pronounced and may become more so as mechanization looms as the only real solution of our agricultural price dilemma. It is a *(Please turn to page 52)*

The Glass Industry—As Peace Nears

BY WARREN BEECHER

THE glass industry has two major divisions, container glass and flat glass, the latter being sub-divided between window glass and plate glass. There are also, of course, miscellaneous lines, such as glass building blocks, insulators, spun glass, optical glass, and various new types being developed by the research laboratories. In the domestic flat glass industry Pittsburgh Plate Glass, Libbey-Owens-Ford and American Widow Glass produce about three-quarters of the total output, while the first two companies also make about 90% of the plate glass. The container group includes Owens-Illinois, Hazel Atlas, Thatcher Mfg., Anchor Hocking and Lynch Corp., maker of automatic glass-blowing machinery.

The leading glass companies have enjoyed better-than-average earnings records as compared with other industrial groups, and being conservatively capitalized most of them enjoy investment status, despite the highly cyclical character of the building and automobile industries which they largely serve.

Examining the record of the flat glass industry first, we find that the two major products—window and plate glass—are about equal in annual dollar value, though the actual quantity of window glass is three or four times that of plate. The construction industry takes over three-quarters of the output of window glass but only 10 or 20% of all plate glass, which goes principally to the automobile industry (miscellaneous items amount to about 10% of the total). During the 1920's production was stimulated by great activity in the building industry, while in the 1930's production of plate glass was favored by increased use in automobiles and by state regulations requiring the use of safety glass.

Despite the cessation of activity in both the residential building and passenger automobile industries during the war, there have been huge glass requirements for ships, planes and other military equipment, together with civilian replacement demand. In June this year plate glass production was 57% larger than in 1943, though only half the 1941 figure. While window glass statistics are not available, heavy production in that branch of the industry is also indicated. Since transition manufacturing problems should not be great, the industry is also expected to fare well in the early post-war period until it catches up with the big backlog of demand in the building and automobile industries.

The glass industry during the past decade has become increasingly active in research fields. Corning has formed alliances with Dow Chemical, Pittsburgh Plate Glass and Owens-Illinois (with jointly-owned subsidiaries) to promote research and develop new products. Glass blocks, already used for ornamental building purposes, have special insulating qualities for use in air-conditioned buildings, effecting substantial reductions in heating and cooling costs. Glass fibers are used increasingly for insulation and heat resisting qualities. While glass fabrics are still in the curiosity stage, they may in future compete with some other textiles for certain uses, due to their fireproof and waterproof qualities. Even window glass may have a greatly expanded field for use because of the aggressive campaign to improve insulation in windows by using a double pane of glass. Of course during the war there has been a special demand for storm windows.

The container branch of the business has benefited during the war by the decreased production of tin containers, increased home canning of fruits and vegetables, etc. Production of containers grew from 5,000,000,000 units in 1934 to nearly 7,500,000,000 in 1937, in 1943 exceeded 13,000,000,000, and this year will show a further substantial gain. Of course, this includes a considerable volume of war work. Tin supplies will again be freely available after the war. On the other hand new products and methods developed during the war should aid the container industry when peace comes.

Control over the use of glass containers has recently been relaxed by WPB, with foods and chemicals on an "unlimited" basis. All jars for home canning are now

Glass Companies

	Where Traded	Recent Price	1944 Range (Approx.)	Est. 1944 Earn.	Price-Earn. Ratio	Dividend (Est. Rate)	Yield
FLAT GLASS COMPANIES							
Pittsburgh Plate Glass..	C	118	122-95	$6.50	18	$4.00	3.4%
Libbey-Owens-Ford...	S	53	54-42	3.00	14	1.75	3.3
CONTAINERS AND RELATED LINES							
Owens-Illinois..	S	59	64-55	3.50	17	2.00	3.4
Hazel Atlas......... ...	S	107	108-99	7.50	14	5.00	4.7
Anchor Hocking......	S	25	28-20	2.25	11	1.00	4.0
Thatcher Mfg.........	S	20	24-13	3.00	7	1.00	5.0
Lynch Corp. (Machinery)...............	C	31	32-27	2.50	12	2.00	6.5

S—N. Y. Stock Exchange. C—N. Y. Curb. O—Other exchanges or over-counter. *1936.

unrestricted and food packers have greater leeway in the use of glass containers.

We comment as follows on individual stocks:

Pittsburgh Plate Glass is the largest maker of plate glass (largely sold to the automobile industry) and one of the three largest makers of window glass. Carrara structural glass and mirrors are also produced, and the company has a half interest in Pittsburgh Corning Corp., maker of glass building blocks. Flat glass, however, accounts for only half the company's sales as it is also an important paint and chemical producer. The Columbia Chemical division is a heavy producer of chlorine soda-ash, caustic soda, calcium chloride and related products.

The company, which is identified with the Mellon group, maintains a very strong financial position with no senior securities, and cash equivalent to nearly twice total debts. The earnings record is quite stable, though there was a very slight deficit in 1932 and 1938 earnings dropped to $3 compared with $8.53 in the previous year. Profits in recent years have been running between $6-$7 and this appears likely to continue so long as present conditions prevail. Normally about 70% of profits are distributed to stockholders, which has resulted in some irregularity in the dividend rate, though the record of payments is unbroken for forty-four years. The relatively low yield reflects the investment quality of the stock.

Since the company is closely tied in with the automobile industry, and profits usually fluctuate with sales (prices being generally stable), continued prosperity over the next two or three years seems likely. Operations of the paint division should also be bolstered by renewed building activity as war work slackens; and the chemical division is showing rapid growth.

Libbey-Owens-Ford ranks second in the plate glass industry and leads in window glass. The company's contract to supply glass to General Motors was extended to 1945, and auto sales account for some 60% of the total. Factories are located favorably in relation to raw materials, fuel and leading markets. The company is active in special fields such as Thermopane, an insulating glass, and Plexiglas, a transparent plastic. While earnings recovered sharply from the small 1932 deficit they have been less favorable in recent years, though dividend dispersements have remained generous. Net dropped sharply in 1942 but is expected to recover to around $3 this year.

Apparently the company was slow in replacing its lost automobile business with war contracts, but is now doing substantial military business. Because of the fact that earnings are largely paid out in dividends, cash position was smaller in Dec. 1943 than in 1940, though it continued to cover debts 1.3 times. The stock would seem to rate below Pittsburgh Plate Glass in quality, based on the statistical comparisons in the accompanying table.

American Window Glass was incorporated in 1889 as a merger of several predecessor companies. It is principally in the window glass field although it makes a number of special and novelty glasses, including safety glass, bullet-resisting glass, etc. Earnings have been highly irregular, gross profits increasing from $176,080 in 1932 to $2,290,339 in 1937 and dropping to $813,392 in the following year. Net income has reflected unsatisfactory profit margins, deficits having been reported continuously during 1930-35 and again in 1938-9 and 1943. Despite this drab showing, the company had a fairly good financial position at the end of 1943 with a current ratio of nearly 5 for 1, and no debts other than current. It was recapitalized in 1941, new preferred being issued in exchange for the old preferred and class A stocks, so that arrears on the present preferred amount to only about $3.

Shatterproof Glass Corp. is a small Detroit company incorporated in 1939 to produce safety glass. Sales have increased substantially but share earnings remain small and the current position shown by latest balance sheet was only fair.

The Container Division

Turning to the container division of the industry: *Owens-Illinois Glass Company* is the largest domestic producer, turning out about two-fifths of the industry's entire production. It caters to a number of industries including food, drugs, milk, liquor, beer and soft drinks. In addition to containers, the company makes other glass products, plastics, metal containers and corrugated and wood cases. A subsidiary which it and Corning Glass control jointly makes glass fibers and fabricated products.

Owens-Illinois has investment status, due to its excellent record of stable earnings and dividends. However, while cash has increased substantially in recent years, the current ratio (two to one) is lower than for Pittsburgh Plate Glass and Libbey-Owens. $15,000,000 debentures issued in 1937 to repay large capital expenditures were retired last year leaving the common stock as the sole capitalization.

The WPB is currently expected to lift its curb on the production of glass jars, it is reported by members of the industry at their annual convention, which will permit the industry to take care of rising inventories. Owens-Illinois should benefit along with other producers. However, this stock lacks attraction on a dividend yield basis of only about 3.4 per cent

Hazel-Atlas Glass Co. is the second largest in the container industry. About half the company's business is in food products containers, but the balance of the output is well diversified among various industries such as cosmetics and drugs, home fruit jars, table and miscellaneous glassware, metal and glass closures, etc. The company's profits and dividends have been unusually stable, the present $5 rate having been maintained since 1938.

The stock has also been quite steady marketwise. The financial position is very strong, cash being four times all debts at the end of 1943, while the current ratio was over eight for one. Capitalization consists of 434,409 shares of stock.

The company's stable sales and income have probably been due in part to two factors—its important position in food containers, and its patent royalties. The Government's anti-trust suit against Hartford-Empire Co., Corning Glass Works, Owens-Illinois Glass Co., Hazel-Atlas Glass and other companies will be re-argued before the Supreme Court on appeal in October. The Court said it did not wish any further facts on alleged violations of the trust laws, but did want specific information on decrees issued by lower courts and on the objections of the defendants.

Royalties payable to, and participation in net income receivable from Hartford-Empire Co. under the 1932 agreement, (which terminates next January) were included in Hazel-Atlas' income statement prior to 1941, but have been excluded in 1941-3, pending termination of long-standing litigation. Income from Hartford-Empire has been impounded by the U. S. District Court since 1941. The whole patent situation is so involved that it can't be briefly described, but adverse outcome of the litigation might encourage new competition. The patent situation, therefore, detracts somewhat from the company's otherwise strong position and good outlook.

Anchor Hocking Glass was formed by a merger of Anchor Cap Corp. and Hocking Glass in 1937. The glassware division, which accounts for 85% of sales, is divided between food products containers and miscellaneous lines, including tableware, drug and cosmetics glassware, etc. Caps and closures for hermetically sealing glass food containers make up the remaining 15% of sales. Profit margins are rather narrow in the latter field.

The company has outstanding 34,436 shares of $5 preferred stock and 715,550 shares of common. While cash has increased sharply in recent years, the current ratio has declined, being only 1.9 to 1 last December, while cash exceeded debts slightly. Share earnings have shown irregular gains in recent years. Dividends, paid since 1929, have been held to a conservative level. The company is not directly involved in current anti-trust litigation affecting the industry.

Earnings for 1944 are estimated at $2.20 a share or about 10% over 1943. While only 15c quarterly is paid, it is expected that this will be supplemented by the usual year-end 40c extra. While the stock does not enjoy as high investment quality as some of the other glass issues, its position has improved in recent years and a more liberal dividend policy may be forthcoming after the war (present payments are less than half of earnings).

Thatcher Manufacturing Co. is known as the milk-bottle company. Its annual capacity is about 166,000,000 bottles, used principally in the East, and accounting for about half the total national output. The bottles are made with automatic machinery, licensed by the Hartford-Empire Company, which owns the basic patents. The company is therefore involved in the current litigation involving the industry's patent position. About 15% of sales are obtained from other lines such as glass for packers, liquor companies, and other industries.

While sales have shown good growth in recent years, earnings and dividends have been highly irregular. Earnings increased to $4.47 in 1937 but dropped to 59c in 1940, and in 1942 a deficit of 79c was reported. In 1943 a modest comeback permitted earnings of 86c a share. The company's troubles rose from lower profit margins due to competition with paper milk containers, though the situation has now temporarily improved due to the paper shortage. Due to this factor and the increased demand for packers glassware and liquor bottles, earnings this year may advance to the $3 level, it is estimated. Dividends were resumed in June this year with a 50c payment, the first in four years.

Due to the company's lack of diversification and special competition, the stock obviously lacks investment appeal, but the sharp changes in earning power in recent years lend speculative interest. The stock more than quadrupled its 1942 low of $5, but at present is substantially below this year's high.

Lynch Corp. is one of the principal makers of automatic glass-blowing machinery, used for producing bottles, tumblers, jars, building blocks, etc. Special machinery is also made under contract for a wide variety of industries, including glass wool, glass fiber, plastics, containers, etc. Owens-Illinois is the company's biggest customer and under normal conditions there is a good volume of foreign business. While the company is small, it occupies a strong trade position due to ownership of basic patents, and no deficits were reported during the 1930s. Earnings have been slightly irregular, but dividends have been maintained for some years at the $2 level, compared with current earnings estimated around $3. Capitalization consists of only 150,000 shares. The stock offers an attractive yield considering the past record.

Corning Glass Works is an important company making pyrex and other special glasses, but the stock is closely held and the concern does not publish financial statements. It has close affiliations with other large glass companies for research and development purposes.

Jeannette Glass makes special kitchenware, with net sales around $3,000,000. The company appears to be over-capitalized, and the financial position is not very strong. Deficits were encountered in 1937-9.

U. S. Glass Co. makes pressed and blown glassware, with sales around the $2,000,000 level. Deficits were encountered throughout the period 1936-41 but $1.01 was earned in 1942.

A section of the grinding and polishing units in one of the plants of the Pittsburgh Plate Glass Co.

Shifts in Investment Trust Holdings

BY J. S. WILLIAMS

PORTFOLIO changes of investment trusts have always commanded a good deal of interest among investors although that interest necessarily has to remain more or less academic since as a rule, little or nothing is known as to the exact timing of such changes or the reasons behind them.

The latest survey by the National Association of Investment Companies covering portfolio changes of 86 investment trusts during the first half of 1944 is no exception. It highlights the disposal of substantial blocks of oil stocks but despite this liquidation, oils still accounted for nine of the fifty individual stocks most widely held at mid-year. We do not know when and why oil stocks have been sold but we do know that it does not reflect a uniform policy.

The net result of both purchases and sales by 86 investment companies covered in the survey were decreases in holdings by 104,300 shares of Pure Oil, 38,800 shares of Standard Oil of California, 13,500 shares of Phillips Petroleum, 8,500 shares of Standard Oil of Indiana, 77,700 shares of Continental Oil, 15,500 shares of Texas Co. and 17,300 shares of Standard Oil of New Jersey. However, the stock to show the largest decline in holdings was Paramount Pictures which was off 106,000 shares or nearly one-third. Other popular equities in which sales have predominated this year include U. S. Steel, Montgomery Ward, International Nickel and Commonwealth Edison. Some reduction in holdings of defaulted rail bonds was also noted.

Rubber manufacturers, automobile accessory companies, banks and utilities were the principal groups in which purchases exceed sales by a good margin. Holding company preferred issues predominated in the utility group though combined holdings of North American common increased by over 50,000 shares, showing the biggest net gain for any single issue. Net gains were further reported for Borg Warner with 39,100 shares, Standard Brands 34,000 shares, Greyhound 24,300 shares, National City Bank 24,000 shares and Great Northern Railway preferred 18,700 shares.

More shares of North American Co. were held by investment trusts than of any other stock and such holdings had a greater value—$26.30 millions—and were equal to 16.6% of the outstanding North American stock. Altogether, 1,421,680 shares are held by 47 investment companies.

Incidentally, not all oils were sold. Gulf Oil, for instance, as the lone exception was acquired with a net increase of holdings of 12,400 shares. Based upon the number of individual companies which hold the issues, the ten common stocks most popular with investment company managements as of June 30 were the following: Standard Oil of New Jersey, Montgomery Ward, General Motors, Chrysler, North American Co., Socony Vacuum, General Electric, Deere & Co., American Gas & Electric and Union Carbide & Carbon.

In the motion picture field, apart from Paramount, Loew's was also sold on balance, though to a much smaller extent.

In point of market value of shares held, the following equities, in the order given, were among the leading issues: North American, Standard Oil of New Jersey, Chrysler, General Motors, Montgomery Ward, Sears Roebuck, Texas Company, Deere & Co., Commonwealth & Southern $6 preferred, Loew's, Gulf Oil, du Pont, American Gas & Electric, Union Carbide and Kennecott Copper, with dollar values ranging from $26.30 million of North American holdings to $9.95 million of those of Kennecott.

Stocks in which Investment Company Holdings were INCREASED

STOCK	Shares Added	STOCK	Shares Added
General Motors.....	4,800	Greyhound.........	24,300
North American.....	50,700	Great Northern pfd...	18,700
Union Carbide.......	3,000	Guaranty Trust.......	2,130
Gulf Oil...........	12,400	National City Bank...	24,000
du Pont............	6,250	Borg Warner........	39,100
Commonw. & Southern pfd..............	6,000	Amer. Pwr. & Lt. pfds.	15,900
Goodyear..........	14,100	Standard Brands......	34,000
Goodrich...........	11,000	Elec. Pwr. & Lt. pfds..	5,000
U. S. Rubber........	12,400	Elec. Auto Lite......	4,200

Stocks in which Investment Company Holdings were DECREASED

STOCK	Shares Reduced	STOCK	Shares Reduced
Standard Oil of N. J..	17,300	Loew's.............	12,800
Montgomery Ward...	18,700	Pure Oil............	104,300
Chrysler............	8,200	Standard Oil of Cal...	38,800
General Electric.....	12,400	Atchison...........	10,300
International Nickel..	25,500	Phillips Petroleum....	13,500
Texas Company......	15,500	Standard Oil of Indiana	8,500
Paramount..........	106,000	Commonwealth Edison	15,000
Kennecott..........	8,150	United Aircraft......	3,900
Continental Oil......	77,700	Chesapeake & Ohio..	3,500
U. S. Steel..........	25,600		

Source: National Association of Investment Companies

Evaluation Made Difficult

In evaluating the changes enumerated in the foregoing, the reader must of course consider that since they cover the period of six months ended June 30, they do not necessarily indicate current opinion regarding the industries or specific securities mentioned. Nor do they give any clue as to the motive that led to their selling or buying. Nor may such motives have been the same in the case of every investment company that decided to reduce its oil holdings. One may have done so to realize profits while another—for any number of reasons—may have wished to reduce the accent on oil stock holdings for the sake of diversification elsewhere. On the other hand, the net increase in holdings of Gulf Oil, a company known for its policy of retaining a high percentage of earnings, may well have been due to tax considerations, quite apart from the favorable longer term potentials generally attached to this leading oil producer.

Another thing to keep in mind is that the study discussed in this article was based upon 50 stocks most widely held by investment companies, the combined market value of which accounts for only 30% of the total assets of the funds analyzed. Many purchases and sales were of the less well-known issues.

A feature of the Association's mid-year study has been

the change towards greater liquidity. Cash and U. S. Government securities held by the 86 member companies analyzed amounted to $124,000,000 or about 9½% of combined total assets of $1,298,000,000, compared with aggregate cash and Governments of $101,600,000 at the 1943 yearend. However, this trend towards greater liquidity in the form of cash items was by no means uniform. Differences of opinion in this respect among individual managements were shown by variations ranging from virtually full investment in equities to a cash position, in the case of Atlas Corporation, of about 34% of total assets. Thus once again, one is forced to forego any definite conclusions as to the significance of this trend, very pronounced with some companies but virtually non-existent in the case of others. Apparently, views on investment policies differ just as much among investment trust managements as among individual investors.

Divergent Showing of Individual Trusts

Take, for instance, Atlas Corporation, one of the leading "closed end" investment trusts which at least during the first half year believed in a policy of "lightening up." During that period, the company sold a substantial part of its portfolio investments, thereby increasing cash items from about $10.31 million at the end of 1943 to $23.05 million at mid-year. Actually, portfolio holdings declined from $37.11 million to $29.88 million, and as a result, percentage of cash items to total assets rose from 16% to 34%. At the end of June, company's investment position was as follows: Cash holdings 34%, common stocks 33%, preferred stocks 9%, bonds about 2%, subsidiaries and special investments 21%. On December 31, 1943, the respective percentages, in relation to total assets, were 16%, 37%, 17%, 4% and 27%.

Atlas is well known as an investor in "special situations" and its trend towards liquidity, likely as not, may be preparatory to post-war participation in a number of such ventures. We do not know but the fact remains that the company at mid-year was only two-thirds invested. Principal changes in Atlas' holdings during the first half year arose from the sale to a banking group of 57,337 Radio-Keith preferred shares, its entire holdings of such stock; Atlas however retained its large holdings in both Radio-Keith common and option warrants. Net change in common stock holdings was small, the total declining from $23.97 million to $22.40 million in market value. However, this relatively small decrease, owing to the intervening rise in market quotations, obscured in part the very considerable shortening the company's list of common stock holdings has undergone in various directions. Oil company holdings, incidentally, were increased by acquisition of 3,000 shares of Standard Oil of Indiana common stock. Holdings of preferred stock declined from $10.68 million to $6.18 million, mainly reflecting the aforementioned sale of Radio-Keith preferred for somewhat over $5 million cash.

At mid-year, total assets of Atlas were $67.82 million whereof cash amounted to $21.55 million and U. S. Governments to $1.50 million, securities at market to $29.88 million and investments in majority-owned subsidiaries to $14.46 million. Asset value per common share was $21.12 against $19.01 at the end of 1943 and $19.39 the year before. It may well be, of course, that Atlas' heavy cash position at mid-year was purely temporary; the Radio-Keith sale occurred on June 5 and it may have taken some time to reinvest the proceeds.

In contrast with Atlas, net changes in investment position of Lehman Corporation were small during the first half of 1944, and oil securities continued to form the largest concentration of investments in the company's portfolio. At mid-year, such securities made up 15% of the total portfolio and had a market value of $12.84 million compared with total assets of $63.13 million. Next largest holdings consisted of utilities (12%) with a market value of $12.72 million. Third in importance were merchandising equities which were held in a total value of $7.87 million.

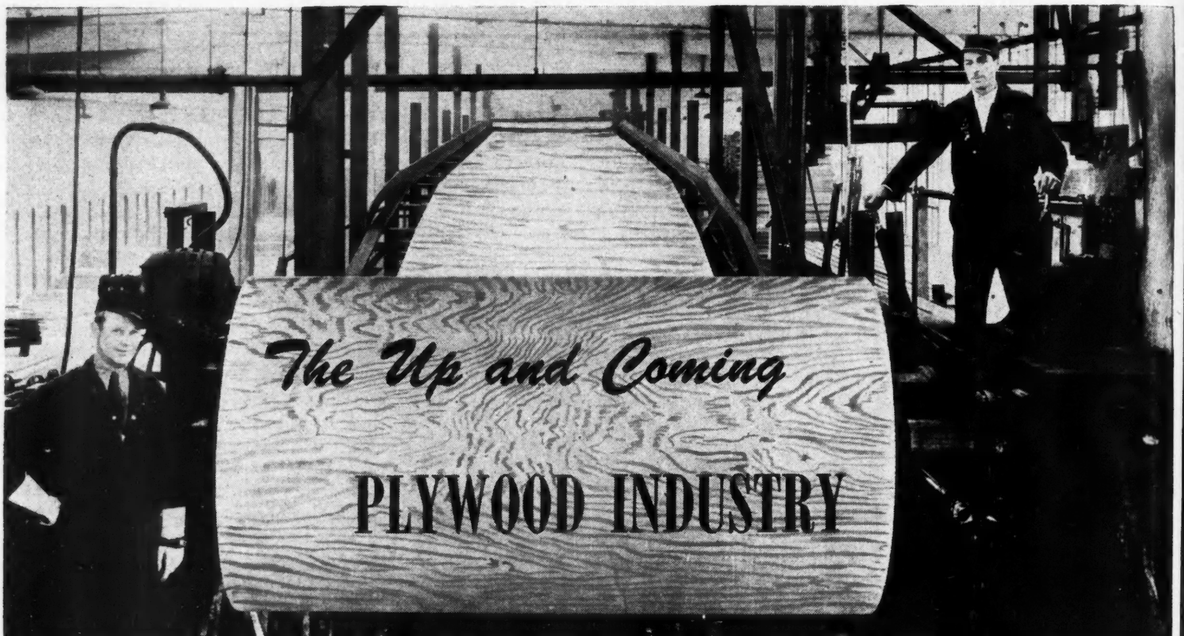
Largest single stock investment of Lehman Corporation is a block of 40,000 shares of General Motors valued at $2.58 million; second largest is a block of 20,000 shares of Amerada Petroleum valued at $2.1 million. Most important addition during the second quarter of this year consisted of 30,000 shares of North American Co. Indicative of the relatively minor changes in portfolio holdings over the past year is the fact that they resulted in net sales of only $96,103, exclusive of Government bonds.

Total assets at mid-year were $63.13 million; thereof cash and equivalent amounted to $1.27 million and U. S. Government bonds to $5.12 million. Other securities holdings totalled $55.57 million whereof bonds $3.28 million, preferred stocks $3.97 million and common stocks $48.31 million. Miscellaneous investments amounted to $1.16 million. Percentagewise, in relation to total assets, the company's investment position then shapes up as follows: Cash and Governments 10% compared with 9% at the yearend; other bonds 5% and preferred stocks 6% compared with 6% and 8% respectively last December; common stock holdings 76% unchanged from last year. Of common stock holdings, industrials made up 67% of the total and utili- *(Please turn to page 56)*

Stocks Most Widely Held by Investment Companies on June 30, 1944

No. of Funds Holding	Name of Stock	No. of Shares Held	Market Value of Shares Held (000's Omitted)	% of Outstanding Stock Held
54	Standard Oil Co. of N. J.	295,163	$16,824	1.1
54	Montgomery Ward	318,125	15,071	6.1
49	General Motors	235,750	15,206	.5
48	Chrysler	174,595	16,499	4.0
47	North American Co.	1,421,680	26,302	16.6
47	Socony-Vacuum	725,512	9,794	2.3
43	General Electric	210,660	8,005	.7
42	Deere & Co.	256,800	11,524	8.5
40	American Gas & Elec.	373,950	10,844	8.3
40	Union Carbide	126,555	10,251	1.4
40	International Nickel	291,600	9,258	2.0
39	Texas Co.	242,804	11,594	2.2
39	Gulf Oil	228,924	10,931	2.5
35	du Pont	68,685	10,921	.6
34	Common. & Sou. $6 pfd.	139,170	11,447	9.4
34	Commercial Inv. Trust	133,440	6,288	3.7
33	Sears Roebuck	145,500	14,186	2.5
33	Goodyear	168,900	8,213	8.2
33	Westinghouse Electric	63,195	6,635	2.0
33	Ohio Oil	226,014	4,125	3.4
32	Goodrich	141,250	7,380	10.8
32	U. S. Rubber	140,400	7,371	8.0
32	American Radiator	361,900	4,252	3.6
31	Paramount Pictures	252,600	7,262	6.7
31	Greyhound	262,860	6,046	9.4
30	Kennecott	167,700	9,957	1.5
30	Int'l Harvester	103,300	8,161	2.4
30	Continental Oil	114,684	3,612	2.4
29	U. S. Steel	95,555	5,673	1.1
29	Great Northern Ry. pfd.	153,320	5,443	6.1

The Up and Coming PLYWOOD INDUSTRY



A rotary lathe for cutting plywood veneers

United States Plywood Corp.

BY P. T. SHELDRICK

MUCH larger demand for plywood is expected in the post-war period than had been known before, a result of the vastly improved product that has resulted from its intensive use during the war. It has served a number of wartime activities, especially in the trim of cabins in airplanes, in the bodies of many specialized aircraft, for containers, army cargo truck bodies, on a variety of ships, in boxes for shipping many different kinds of army and navy equipment, in military buildings, and other ways. The leading makers of plywood have been compelled to find many new methods of preparing it, and their discoveries will be an advantage in peacetime activities.

One of the most important developments of the past few years has been a greatly improved binding material for the thin strips of wood. It is derived from synthetic resins, which largely replaced the animal and vegetable glues formerly used. This resin, in its various forms, is capable of being heated evenly for uniform distribution over the surfaces to be joined, and an electronics device is used to control the heating of the fastening material. When dry, it is far superior in its binding quality to the old-time glues.

A further extension of the use of plywood may be to join it with metals. Metal and wood can be combined by a liquid resin and a catalyst. Particular success had been found with a birch plywood and sheets of steel or aluminum. An example of the holding power of wood and metal has been cited where an iron washer was attached to plywood and withstood a 4,000 pound pull, whereas a bolt which had been put through ordinary wood gave way on 1,400 pounds pull. There are important possibilities for plywood in such use with metal.

Before the war, the main uses of plywood were in decorative panelling in building, in radio cabinets and in furniture. These uses will continue to be among the most important, but the container business promises to be even greater, while television cabinets may one day be another source of large orders. Plywood also has been used in siding for houses, billboards, boats, truck and automobile bodies, doors, table tennis tops, cupboards, for counters in stores and many other things. Almost any wood can be used—mahogany, walnut, pine, maple, oak, imported woods such as those of France, England, and even satinwood from the East Indies. When the post-war building program is in full swing, it is expected that plywood will be in the greatest demand ever known.

A number of companies are in this industry, but only three are leaders in making plywood. They are Atlas Plywood Corp., Mengel Co. and United States Plywood Corp. Nearly all of the larger lumber companies are engaged in it to some extent, but it is a small part of their total business. The Fairchild Engine & Airplane Co., through its Duromold division, is interested in it. Possibly Celotex Corp. might be included in this list, for the company makes a wallboard and other building products from compressed pulp of the sugar cane, and the resulting board is similar to a plywood, in that it can be laminated (small strips joined together for the formation of a board of any desired size, shape and thickness). Masonite Co., through a special process, has a product similar to plywood, in that it compresses wood fibers and forms a solid board which can be made to size, thickness and shape, as desired. Among companies making the binder used in plywood—a phenol-formaldehyde resin and other plastics used as "glue"—are Catalin Corp. and Durite Plastics, Inc.

Companies in this field have had many difficulties during the war, the most important of which is a shortage of labor, but they made up a part of this by employing women, even in the lumberjack work. Then a wood shortage developed, under which much of the civilian demand had to be by-passed, but materials for the armed forces received priorities and this part of the business has been very large, especially for plywood packing cases.

Before discussing the financial position of the three

plywood companies, it might be of advantage to quote from a trade article, as follows: "Wood is a non-homogeneous material. All of its weaknesses lie across the grain. Expansion and contraction under heat and moisture and the attendant defects, such as warping and checking, are due to cross-grain structural weakness. Wood has great strength and practically no movement the long way of the grain. Plywood is the term used to describe a combination of several plies of wood glued together so that the grain of any one ply is at right angles to the adjacent ply. By balancing such construction, a product of great strength results, uniform in all directions, minimized in movement and providing a sound base for fragile figured veneers. Thus the inherent defects of wood are corrected and the resultant product presents large well-behaved flat or curved surfaces."

The Leading Company

United States Plywood has had the best earnings record of the three companies specializing largely in plywood, and from the start of the predecessor company in 1919, its sales volume has shown a progressive gain, with occasional brief setbacks. The present company was formed in 1937. It has earned over $1 a share in every year of the past eight, in one (1942) showing $3.85, and with an average for the period of $2.44 a share. It makes plywood of a number of different woods, but the main one used is Douglas fir. Many of its other plywood products are from hard woods of the Northwest. Its special lines are Douglas Fir "Weldwood," which is the largest selling plywood in the industry, being used for all types of buildings, containers, airplane parts, automobiles, railroad cars, boats, toys, signs and many other decorative or industrial uses.

Its hardwood plywoods are used for homes, offices, stores, doors, furniture, boats, airplanes, musical instruments, etc. Patented "Weldtex" is a decorative product. There is a patented molded and a tubular weldwood. Another patented item, "Flexwood," is a thin veneer mounted on cloth. "Flexglass" is a decorative glass, with a wide variety of uses. "Armoply" is a plywood in which metal is permanently bonded. "Tekwood" is a hardwood veneer, faced with kraft paper. "Mengel Doors" are flush doors of plywood for interior and entrance use in almost any type of building. The company also makes "Weldwood Glue," which is sold through many wholesale and retail distributors. Its "Tempreg" is a molded plastic, now used in aviation but with many industrial uses expected in the postwar period.

U. S. Plywood assets have had a remarkable growth in the twenty-five years since the original company was formed in 1919, with only $500 capital. At the end of the 1944 fiscal year, it had $8,500,000 net worth, total assets of $12,566,787. In the 1944 fiscal year gross sales after discounts, returns and allowances were $20,563,091. Operating profit before other income was $2,927,284; and after $2,113,233 taxes, net for the year was $913,741. Other statistics of income, etc., are to be found in the accompanying tables.

U. S. Plywood raised approximately $3,400,000 a year ago through the sale of additional common stock and its new preferred, retiring the former preferred shares. The present preferred is on a $4.75 dividend basis, has $100 par value, is callable at 102 for the sinking fund, otherwise at 106. The common stock of $1 par value is at present on a $1.20 a share annual dividend basis.

U. S. Plywood and the Mengel Co. formed a new corporation which they jointly own named U. S.-Mengel Plywoods, Inc. Its purpose is to own and operate a number of distributing units. Inventories will be purchased from both of the companies, with Mengel supplying Southern hardwood and U. S. its Western and Northern plywood. Besides distributing these products, the jointly owned company will market other products and specialties of both parent companies, and it will be the sole agent for the patented Mengel "Airlok," a core door.

The Mengel Company is the oldest of the three, having been founded in 1877, and the present corporation dates from 1899. It has a large business in plywood, particularly featuring the container part of the business, but it also has other important activities. For a number of years, it had made kitchen cabinets, and was entering the making of other furniture when the war started. As soon as practical, it will resume this, planning to make complete room sets and market them itself. Arrangements have been made for retail outlets for bedroom sets, dinette sets and specialized furniture. It once made prefabricated houses, and may return to this field later, but will make up lumber to sell to others making prefabricated houses as soon as the market is reopened for this work.

Mengel started nearly 70 years ago as a small, wooden box factory. It has had the greater part of its growth in the past ten years, with record gross income for 1943 at $27,723,595. In that year, a contract for airplanes was completed, and other business for the war effort which has been obtained in place of it has been on a smaller scale, with the 1944 gross business expected to be several millions smaller. Net earnings this year, however, may surpass 1943 as they were 80 cents per share on the common for the first six months of 1944 against 48 cents for the corresponding period in 1943. In 1943, Mengel had $2,317,918 operating profit. Net income, after $1,600,000 taxes, was $748,360. For the past eight years, the average annual net income was 64 cents a share on the common stock, but this (*Please turn to page* 51)

Statistical Position of Leading Plywood Companies

	Atlas Plywood	Mengel Co.	U. S. Plywood
Funded debt	None	$2,500,000	$662,327
Preferred stock-shares	49,416	65,040	15,000
Common stock-shares	433,524	417,681	299,932
EARNED PER COMMON SHARE			
Annual average, 1936-9.	$0.86	def.$0.14	$1.69
Annual average, 1940-2.	1.87	1.55	3.31
1943 or 1944 fiscal year.	1.66*	1.40	2.83#
Estimated 1944, or 1945 fiscal year	1.75	1.70	3.00[1]
*Year to June 30, 1944.	#Year to April 30, 1944.		
DIVIDENDS PER COMMON SHARE			
Annual average 1936-9.	$0.35	nil	$0.53
Annual average 1940-2.	0.82	$0.25	1.20
1943	0.60	0.25	1.20
Indicated 1944	0.70	0.25	1.20
Book value common per share	$12.91	$12.39	$23.40
Net current assets per common share*	3.88	0.51	3.98
*After allowance for prior securities			
MARKET PRICE OF COMMON			
Range 1936-1942, high, low	14¾-3⅛	16⅜-2⅛	32⅝- 7
Range 1943	12½-7⅞	12¼-4⅝	44½-32
Range 1944	15 -9¾	15⅛-8¾	43⅞-35¼
Recent price	14⅞	13¾	43⅞

INTERNATIONAL TELEPHONE

ON THE ROAD BACK

Prospects After the War

BY OWEN ELY

INTERNATIONAL Telephone & Telegraph was incorporated in 1920 and during the ensuing decade acquired a dominant position in the foreign communications field. In 1925 system assets had not quite reached the $100,000,000 mark but by 1930 they exceeded $600,000,000. In later years, however, the figures showed a shrinkage to $462,000,000, due to the omission of the Mexican, Spanish, German, Polish and Shanghai properties as well as the Postal Telegraph system. In 1938 the company took a $44,000,000 loss on its Postal investment, due to loss of the equity interest in reorganization, but a majority interest in American Cable & Radio Corp. (which took over the cable interests of Postal Telegraph) was acquired in 1940. The entire Rumanian telephone properties were sold to the National Bank of Rumania in 1941 for $13,800,000 cash.

An indication of the distribution of the company's telephone business is indicated by the number of domestic toll calls handled in 1943. Of these, some 38,000,000 were in Spain, 17,000,000 in Argentina, 5,000,000 in Chile and roughly 1,000,000 each in Brazil, Cuba, Mexico, Puerto Rico and Uruguay, the total amounting to about 67,000,000.

When International was founded in 1920, it operated only 40,000 telephones in Cuba and Puerto Rico, while now it has more than 600,000 phones in Latin America alone. Its subsidiaries operate about 91% of the telephones in Argentina, 94% of those in Chile, 71% in Peru and handle a substantial proportion of the total business in other Latin American countries.

The United River Plate Telephone Company of Argentina (bought in 1929 from British interests) has by far the largest telephone system south of the United States. It has been completely modernized, and 93% of the telephones in Buenos Aires (third largest city in the Western Hemisphere) are on an automatic dial basis. Other Latin American systems have also been interconnected and modernized.

I. T. & T. (parent company) has investments and receivables with a book value of $305,000,000, of which 22% represent properties in Spain, 28% in Argentina, 7% in Chile, 3% in Brazil and Peru, and about 4% each in the West Indies and Mexico. The Shanghai investment (now in the hands of the Japs) is carried at less than 1%. Manufacturing and sales subsidiaries in Europe account for 17%, and those in United States 2%; cable and radiotelegraph subsidiaries 9%, and buildings in New York City about 3%.

International Tel. & Tel. was founded under Morgan auspices by Col. Sosthens Behn of Cuba, and has had a remarkably successful record considering the great handicaps it has encountered in wars, revolutions, foreign exchange losses, etc. The company has avoided bankruptcy because of the fairly broad capital base. As of December 31, 1943, the financial set-up was approximately as follows: Subsidiary long term debt, $40 million or 11%; subsidiary preferred stock, $10 million or 2%; minority interest, $3 million or 1%; parent company debt, $86 million or 23%; common stock (6,399,002 shares), $235 million or 65%.

The common stock equity of 65% of system capitalization is probably somewhat misleading, as plant account contains some $41,000,000 "write-ups" over underlying book values at dates of acquisition, together with other intangibles. Moreover, there may be some excessive values in the $115,000,000 item for "investments in and receivables from subsidiaries not consolidated," and in the $38,000,000 net receivables for these companies. Of the combined total for subsidiaries not consolidated ($153,000,000), some $53,000,000 includes many factories located in continental Europe, Japan and China, which may have suffered some war damages. The $71,000,000 investment in Spain may have deteriorated due to the revolution, and the $27,000,000 cable investment is affected by the war in the Orient. However, apart from some factory damage due to bombing, the company may eventually recover a good part of these investments after the close of the European and Pacific wars. The French and Rumanian plants, recently recovered, were found to be intact.

While present book value is about $36 a share, it is impossible (as indicated above) to determine just how much of this is real value until the post-war period. In any event, system earnings furnish a much safer yardstick than property investments, which are difficult to appraise under the best of conditions. In 1929, gross system earnings were about $100,000,000 of which some $18,000,000 ($3.03 per share after a 3 for 1 split-up in that year) was carried to net. $2.00 a share was paid

in dividends that year and the stock sold as high as 149 (equivalent to nearly 450 for the old stock). The last common dividend was paid in 1932, and the stock dropped to 2⅝ in that year—though the record low of 1¼ was not reached until 1941. Earnings continued highly irregular, recovering to $1.60 a share in 1937 and dropping to a small deficit in 1941. Wartime activity has resulted in a sharp rise in revenues, and in 1943 86c a share was earned.

Net working capital for the system dropped from $59,000,000 in 1929 to $2,000,000 in 1940, but recovered to $18,000,000 last year (the figures are not closely comparable). The parent company had a deficit of $7,00,000 in net working capital in 1937, but by 1943 had a surplus of nearly $4,000,000.

Parent Company Finances

While the consolidated system figures are of background interest in appraising the company's securities, the parent company finances are of more immediate interest. Since 1937, parent company debt has been reduced from $123,000,000 to $87,000,000 or nearly 30%. About two-thirds of this reduction occurred in 1938 when the $37,000,000 Debenture 4½s of 1939 were retired and some $15,000,000 new 4½s 1948 were issued. The net reduction of $23,000,000 was financed through cash drawn from subsidiaries, including $9,000,000 obtained from International Standard Electric Co. as a result of inter-company transactions, and substantial amounts were apparently drawn from the United River Plate Telephone Co. (Argentine) and from other sources.

In 1940, the company raised $13,655,000 through sale of its Rumanian properties, which was largely devoted to debt retirement.

In 1938, the company borrowed $15,000,000, two-thirds from the Export-Import Bank (a Federal agency) and the remainder from a group of New York banks including J. P. Morgan & Co. Col. Behn remarked that "the participation of the Export-Import Bank of Washington in the long-term loan arrangement is a gratifying recognition of the importance to American trade of the activities of the Corporation and its subsidiaries in the improvement and development of telephone, cable and radio communications services in and among the Central and South American countries and between those countries and the United States."

The Export-Import Bank agreed to loan 50% of the face value of debenture bonds purchased, with the buying program subject to its approval. However, the Bank, directed by Jesse Jones, was apparently unwilling to authorize repurchase of debentures during 1943, when the price of the 4½s advanced from 63¼ to 80¾. Only part of the original credit has been used, and it apparently expired June 30th this year.

The parent company's income in recent years has averaged just about enough to take care of disbursements (there were deficits in 1940-42). In 1943, however, the company was able to obtain cash remittances of $9,565,500 from subsidiaries compared with $5,786,400 in the previous year. Of the former amount $4,702,800 was obtained from Argentina. Only $909,300 was drawn from Spain, despite the heavy operations in that country. $948,600 was obtained from Chile and smaller amounts from other Latin American countries, together with $1,164,300 from manufacturing and miscellaneous operations in the United States. With further improvement indicated for 1944, the parent company should regain a more comfortable cash position.

International's activities outside the telephone field are of considerable interest. It has been active in the development and manufacture of radio equipment for all purposes. It has supplied commercial radio equipment in foreign countries and has led in the design and production of radiotelephone and radiotelegraph apparatus; marine, aircraft and police radios; radio compasses, direction finders and airplane blind-landing equipment; radio broadcasting stations, and radio and television sets.

Since 1929 the company has built up international and intercontinental radio communications facilities for South America. It has installed radio stations at Buenos Aires, Argentina; Rio de Janeiro, Brazil; Santiago and Antofagasta, Chile, Lima, Peru; and Bogota, Colombia. A telephone line also was constructed across the Andes Mountains. Through this combined radio and wire hookup, leading South American centers are connected with 93% of the world's telephones, and also by direct radio-telegraph with the United States and (in a more limited way) with Europe.

International Telephone has been active in the development of ultra-short wave radio transmission. Microray stations, transmitting waves of 17.4 centimeters, are capable of operating nine separate telephone conversations simultaneously. This new system is in use across the British Channel and between England and Ireland, and its use is being extended. The company's laboratories and manufacturing units have produced and installed 160 broadcasting stations used in some thirty-four countries. Included are stations for the British Empire broadcasting system in England, including several of the most powerful short-wave stations in the world. By means of directional antennae systems, these stations serve Africa, Australasia, Canada and India. Broadcasting stations have been supplied for Argentina, Australia, Brazil, Chile, Czechoslovakia, Denmark, Germany, Hungary, Italy, Japan, New Zealand, Norway, Poland, Portugal, South Africa, Sweden, Switzerland, and other countries.

Prior to the war domestic radio sets were made in England, France, Germany, Switzerland and Hungary, and also in Australia. The company also equipped the studios of a number of National Broadcasting stations. While up-to-date statistics are not available, many hundreds of ships have been equipped with radio apparatus by I. T. & T. subsidiaries, including British, Scandinavian and others. The two big British boats, the Queen Mary and Queen Elizabeth, were equipped by the company. International was also active in the development of television facilities in Europe before the war. One of the most powerful television transmitters in the world was installed in the Eiffel Tower.

During the war the company's research and manufacturing activities have been more largely concentrated

A Statistical Record

Year	Consol. Earnings	Div. Paid	Approx. Range	Book Value	Net Cur. Parent	Assets (Mill.) Consol.	Parent Co. Debt (Mill.)	Rev. (Mill.)
1943	$.86	—	17 - 6½	$36.28	$3.7	$18.4	$87	$34
1942	.33	—	7 - 1½	35.25	3.0	14.2	88	31
1941	D.03	—	3⅜ - 1¼	34.55	6.2	13.3	90	28
1940	.004	—	4¾ - 1¾	33.40	D.1	2.0	99	26
1939	.76	—	10 - 4	30.13	.2	24.8	99	32
1938	1.10	—	12 - 5½	29.34	D.1	26.3	100	34
1937	1.60	—	16 - 4	29.81	D7.3	29.2	123	33
1936	.63	—	19 -11	28.67	2.1	10.3	123	27
1932	D.61	$.15	16 - 2⅝	37.58	—	6.4	—	22
1929	3.03	2.00	149 -53	46.13	—	59.4	—	—

in the United States and South America, due to disruption of Continental European business. Manufacturing in this country is carried on by the wholly-owned subsidiary, Federal Telephone & Radio, whose Newark factory was established early in 1941. Originally, manufacturing activities had been largely concentrated in Europe, but the International Telephone & Radio Corporation began production work in this country and later acquired Federal Telegraph Company (a Postal subsidiary), the two companies being merged under the name Federal Telephone & Radio Corp. Leading technicians from the European manufacturing subsidiaries were brought over to assist in research and development. In three years, under the stimulus of war business, the number of employees grew from a few hundred to ten thousand; floor space (partly rented) now exceeds a million square feet. Federal's production in December was at the annual rate of $94,000,000, and the year-end order back-log exceeded $100,000,000. A permanent plant to consolidate all activities is being constructed in the adjoining towns of Nutley and Clifton (New Jersey). Two units have already been completed, and are occupied by the vacuum tube products and the intelin products divisions (the latter makes ultra-high-frequency cables).

Federal's activities are almost entirely concentrated on military equipment at present, and products include radar, many types of radio transmitters and receivers, radio broadcast stations, direction finders, ultra-high-frequency cables, vacuum tubes, selenium rectifiers, quartz crystals, automatic telephone-exchange equipment, repeater equipment, telephone sets, and industrial electronic products. A new type of direction finder for military use, produced by Federal, represents the highest stage of development in this field. Federal has also developed new high-power tubes, and redesigned tubes to replace scarce materials with non-critical commodities.

The company has also developed a complete, two-course airplane instrument landing radio system, jointly with the Civil Aeronautics Administration. This equipment is used extensively by the military services and has also been installed at a number of commercial airports.

Federal has also recently developed a high-frequency, high-power, induction heating unit called "Megatherm." It is already in use by representative manufacturing companies for a variety of applications, such as controlled and almost instantaneous case hardening of metals, sterilization of medical supplies, and dehydration of foods. Its use in the production of plywoods, plastics and textiles will, it is anticipated, improve quality and reduce costs.

International Telephone and Telegraph

The final operation in the establishment of a cable link; the landing of the cable ashore

The "Intelin" plant, originally built to develop synthetic insulating materials, has helped to develop a new material for solid, ultra-high frequency cables, and the plant is now one of the largest producers of such cables. Another field in which Federal has specialized is the development of the high voltage "Selenium" rectifier capable of withstanding life tests up to ten thousand hours. This product, which has now gone into mass production, is used principally in changing alternate into direct current, and is applied to many military and industrial purposes. Federal's telephone division is supplying a substantial part of the field telephone set requirements of the U. S. Army Signal Corps, but progress has also been made in developing telephone equipment for post-war uses.

Emphasis on Research

While considerable research is carried on in New Jersey, the company's huge headquarters building at 67 Broad Street, New York City, houses a staff of over 700 experts engaged in many important projects for the Army, Navy, and National Defense Research Council. This organization combines research of a high order with the ability to prepare designs and specifications for quick manufacture, and has enabled the I. T. & T. system to maintain a leading position in many branches of electronics. A field laboratory is being constructed at the County Airport in Rye, New York, for development of airplane radio devices of all kinds.

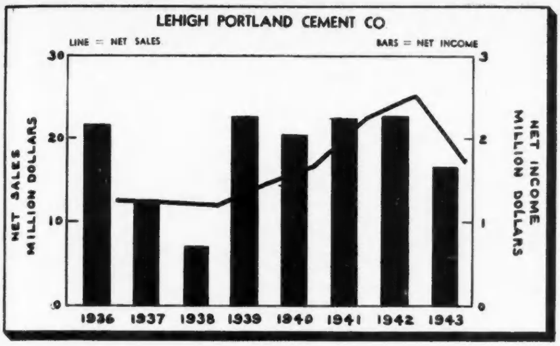
Foreign manufacturing activities continue in England, Portugal, Spain, Sweden and Switzerland, and while many of these plants have suffered from shortage of raw materials and parts, facilities have been expanded in England, Spain and Switzerland. Factories in Argentina, Brazil and Australia are also being expanded.

International's world-wide business has so many ramifications that it is difficult to envisage as a whole. The company will doubtless greatly expand its manufacturing activities in Europe in order to rehabilitate the Continent's communications facilities in the post-war period. It is rumored that it will receive a huge contract to rehabilitate the Russian Telephone and Telegraph system. This peacetime business should largely absorb the cutbacks in war business, though many readjustments will prove necessary. Political troubles in the Argentine may conceivably affect the huge investment in that country. Plans at Bretton Woods and elsewhere, for smoothing international exchange problems after the war, may, if consummated, benefit the company's finances.

The common stock is, as indicated by its past price-range of about 1-150, a high-leverage, speculative issue. The recovery from the 1942 low of 1½ to the 1944 high of 20¼ (more recently 18), has substantially discounted the current rapid recovery in earnings. For the first half of 1944, 67c a share was reported, compared with 35c last year; and for the calendar year a forecast of $1.25 to $1.50 seems reasonable, compared with last year's 86c. However, in 1937 when $1.60 a share was earned, the stock range was only about 4-16.

While the longer-range vista of peacetime development appears to give the stock further substantial appreciation possibilities over a period of years, intervening readjustments and delays may tempo- *(Please turn to page 53)*

6 Sound Companies Without Reconversion Worries



BUSINESS: Lehigh is one of the largest manufacturers of Portland cement, normally producing about 10% of total domestic output. Company's fourteen plants have an annual capacity of 22 million barrels. Though Lehigh serves the Middle West and Southwest, its principal markets are in the East where competition is extremely keen, both from domestic manufacturers and, normally, from imports. Company is especially well entrenched in New York and Pennsylvania where about half of production capacity is centered. Operating efficiency in recent years improved materially and company plants now rank among the lowest cost producers in the industry. Some 4,000 acres of cement deposits are owned.

OUTLOOK: Post-war prospects rest primarily on the outlook for high rate of building and construction activity and plans for sizeable public works, notably highway building for which cement is the principal material used. Overhead costs are less burdensome than those of other large cement producers and normally it is estimated that company can break even with plants operating at somewhat above one-third of capacity. Indicated heavy cement demand post-war and absence of foreign competition in the immediate post-war years points to impressive earnings improvement.

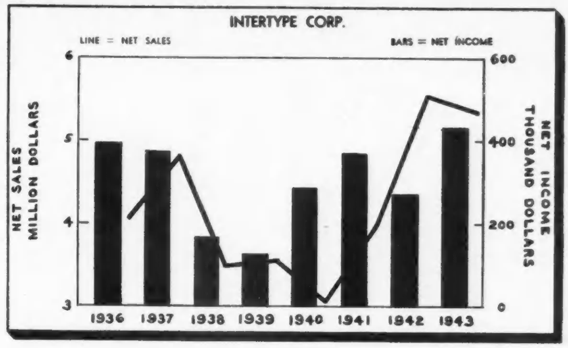
COMMENT: Virtual completion of domestic military construction is currently reducing demand sharply and 1944 net will drop considerably from last year's $1.98 per share. In view of strong working capital position, dividend should be maintained. Past earnings, though cyclical, have been relatively good and dividends liberal. Nevertheless, an excellent financial position has been maintained. Working capital is ample with current ratio 7.3. Cash items are almost five times current liabilities. There is no debt but 56,741 shares of 4% cumulative convertible preferred stock precede the 769,985 shares of outstanding common.

MARKET ACTION: Recent price—29 compared with year's high of 31 and 1937 high of 51½. Past volatility has been considerably above average in major market swings.

COMPARATIVE BALANCE SHEET ITEMS
($ millions)

	Dec. 31 1939	Dec. 31, 1943	Change
ASSETS			
Cash	4.302	4.060	—0.242
Marketable securities	3.637	5.926	+2.289
Receivables, net	0.883	0.524	—0.359
Inventories, net	3.108	4.401	+1.293
Other current assets	—	—	—
TOTAL CURRENT ASSETS	11.930	14.911	+2.981
Plant and equipment	45.080	47.761	+2.681
Less depreciation	23.774	26.893	+3.119
Net property	21.306	20.868	—0.438
Other assets	3.707	3.975	+0.268
TOTAL ASSETS	36.943	39.754	+2.811
LIABILITIES			
Accts. payable and accruals	0.563	0.757	+0.194
Reserve for taxes	0.723	1.286	+0.563
Other current liabilities	—	—	—
TOTAL CURRENT LIABILITIES	1.286	2.043	+0.757
Deferred liabilities	—	—	—
Short term debt	—	—	—
Reserves	1.120	1.090	—0.030
Capital	24.610	24.144	—0.466
Surplus	9.927	12.477	+2.550
TOTAL LIABILITIES	36.943	39.754	+2.811
WORKING CAPITAL	10.644	12.868	+2.224
Current Ratio	9.2	7.3	—1.9

Thumbnail Stock Appraisal



BUSINESS: One of the largest manufacturers of typecasting machines and accessories, Intertype shares leadership of the field with Mergenthaler Linotype and Lanston Monotype. Intertype composing machines are used in over sixty countries. Foreign sales normally represent about 40% of the total volume but this percentage has been progressively lower since 1939. War-time operations are almost exclusively devoted to armament production. Normally, newspaper publishers provide the most important market for the company's type of machines, and most leading papers use one or more intertypes. Job printers furnish another important outlet. Company also does substantial business in repair parts and matrices. Main plant is in Brooklyn, N. Y., while wholly owned subsidiaries have plants in England and, before the war, in Germany.

OUTLOOK: War orders last year absorbed about 85% of activities but have since tapered off, permitting manufacture of increasing volume of replacements and repair parts. Lifting of the ban on production of new printing machinery is epected before long. Existence of a considerable backlog of deferred demand and good export potentials promise improved post-war earning power. Company by active development of improved machines has steadily strengthened its competitive position and long-term outlook is generally favorable. While the business is cyclical, there is a sizeable and stable demand for repair parts which tends to sustain earning power.

COMMENT: 1944 earnings should approximate $1.50 per share compared with last year's $1.94 but a rebound thereafter is indicated. Past earnings were irregular, averaging about $1.15 but dividends were fair, often generous. Finances are sound with current ratio of 5 to 1 attesting to marked liquidity. Cash items are over double current liabilities. A $1 million debenture issue, sold in 1938 to retire preferred stock, has since been reduced to $480,000. Common stock capitalization consists of 221,740 no-par shares.

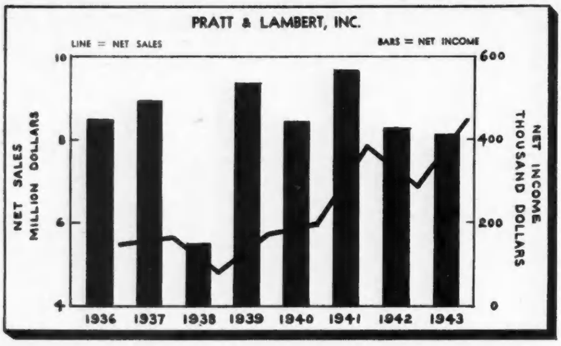
MARKET ACTION: Recent price—17 compared with year's high of 19¼ and 1937 high of 26½.

COMPARATIVE BALANCE SHEET ITEMS
($ millions)

	Dec. 31, 1939	Dec. 31, 1943	Change
ASSETS			
Cash	1.400	1.411	+0.011
Marketable securities	—	1.433	+1.433
Receivables, net	2.326	1.297	—1.029
Inventories, net	2.137	1.634	—0.503
Other current assets	—	—	—
TOTAL CURRENT ASSETS	5.863	5.775	—0.088
Plant and equipment	2.866	3.044	+0.178
Less depreciation	2.168	2.331	+0.163
Net property	0.698	0.713	+0.015
Other assets	0.067	0.932	+0.865
TOTAL ASSETS	6.628	7.420	+0.792
LIABILITIES			
Accts. payable and accruals	0.354	0.179	—0.175
Reserve for taxes	0.098	0.800	+0.702
Other current liabilities	0.019	0.166	+0.147
TOTAL CURRENT LIABILITIES	0.471	1.145	+0.674
Deferred liabilities	0.200	—	—0.200
Long term debt	1.000	0.480	—0.520
Reserves	—	0.375	+0.375
Capital	1.832	1.832	—
Surplus	3.125	3.588	+0.463
TOTAL LIABILITIES	6.628	7.420	+0.792
WORKING CAPITAL	5.392	4.630	—0.762
Current Ratio	12.4	5.0	—7.4

Thumbnail Stock Appraisal

6 Sound Companies Without Reconversion Worries



BUSINESS: Pratt & Lambert is an old-established manufacturer of paints, varnishes, enamels, lacquers and kindred products. The company specializes in the production of high-quality varnishes for interior use in high-priced homes. A fairly important part of output normally goes for home modernization and repair work, as well as for industrial purposes. Still, a relatively high level of residential building is essential for satisfactory operations. Products are sold nationally with major markets in the mid-western and eastern states. Plants are in Buffalo, Chicago, New York, Cleveland, Detroit and Kansas City. Industrial outlets include the radio, steel furniture, railroad, utility and other industries.

OUTLOOK: Large deferred civilian and industrial maintenance demand and the record volume of home building in prospect, together with promising sales potentials in consumer durable goods industries after the war should make for continued good earnings in the future. Reconversion problems are virtually non-existent. War-time research is pointing the way for several new developments for post-war civilian application which should further enhance longer-term potentials. These include waterproof synthetic rubber paints, new plastic-type paints, enamels and varnishes more wear-resistant than any pre-war type, a special paint containing powerful fungicides and a new finish for plywood.

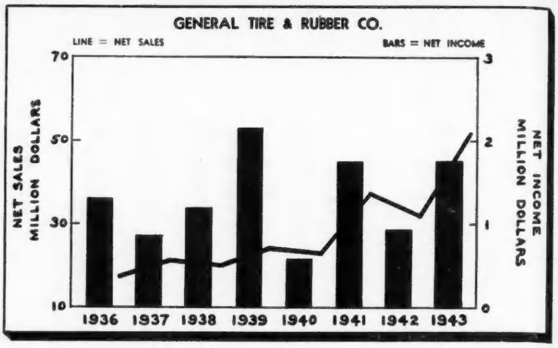
COMMENT: 1944 earnings should approximate last year's $2.11 per share and dividends should continue to total $1.80 annually. Long-term earnings record is good, with net averaging about $2.15, and liberal dividends were paid uninterruptedly. Finances are excellent with working capital almost $24 per share and cash items over four times current liabilities. Current ratio is 9.9 to 1. Small capitalization of 202,500 common shares affords a good deal of earnings leverage. Book value is $33.15 per share. Stock is traded on the New York Curb Exchange.

MARKET ACTION: Recent price—32 compared with year's high of 34 and 1937 high of 41. Volatility is above average in major market swings.

COMPARATIVE BALANCE SHEET ITEMS
($ millions)

	Dec. 31, 1939	Dec. 31, 1943	Change
ASSETS			
Cash	1.251	1.607	+0.356
Marketable securities	0.170	0.740	+0.570
Receivables, net	1.022	0.662	—0.360
Inventories, net	1.722	2.099	+0.377
TOTAL CURRENT ASSETS	4.165	5.108	+0.943
Plant and equipment	3.413	3.256	—0.157
Less depreciation	1.457	1.593	+0.136
Net property	1.956	1.663	—0.293
Other assets	0.423	0.392	—0.031
TOTAL ASSETS	6.544	7.163	+0.619
LIABILITIES			
Notes payable	0.051	—	—0.051
Accts. payable and accruals	0.224	0.264	+0.040
Reserve for taxes	0.113	0.248	+0.135
Other current liabilities	—	—	—
TOTAL CURRENT LIABILITIES	0.388	0.512	+0.124
Minority Interest	0.123	0.076	—0.057
Short term debt	0.022	—	—0.022
Reserves	—	0.075	+0.075
Capital	3.216	3.329	+0.113
Surplus	2.795	3.171	+0.376
TOTAL LIABILITIES	6.544	7.163	+0.619
WORKING CAPITAL	3.777	4.596	+0.819
Current Ratio	10.7	9.9	—0.8

Thumbnail Stock Appraisal



BUSINESS: Though ranking fifth in tire sales, General Tire occupies a fairly strong position in the industry with the great bulk of revenues normally derived from replacement and fleet markets. Pre-war capacity of 10,000 tires daily has been materially expanded, promising good post-war earnings power. Products are distributed under the trade names General and Yale through some 2,000 dealers and through filling stations of the Pure Oil Co. Main plant is in Akron, Ohio. Manufacture of mechanical rubber goods, begun in 1937, has been growing in importance, with subsidiaries operating in Canada, Mexico and Venezuela. Company also has an interest in a new Chilean concern formed to manufacture tires. Pre-war exports were limited.

OUTLOOK: Capacity demand is indicated for the remainder of the war period and for some years thereafter, in line with large deferred civilian demand and excellent revival potentials of the automobile industry. Company's trade position was further bolstered by recent purchase of a minority interest in Mansfield Tire & Rubber Co. whose business normally is largely in special brand tires for leading mail order houses and oil companies. A new research laboratory recently completed is equipped for research in plastics and svnthetics, indicating interest in these fields. Mounting importance of mechanical rubber division should progressively make for greater earnings stability.

COMMENT: 1944 net should approximate $3.50 per share compared with last year's $2.75. Pre-war earnings have been fair but dividends remained relatively small to bolster working capital. Eight year earnings average was $2.50 per share and $1 dividend was paid since 1940. Working capital is ample and fairly liquid. Capitalization consists of 65,000 shares $4.50 cum. preferred stock and 526,862 shares of common. Coverage for preferred dividends is wide and dividend yield on the common is nearly 5%.

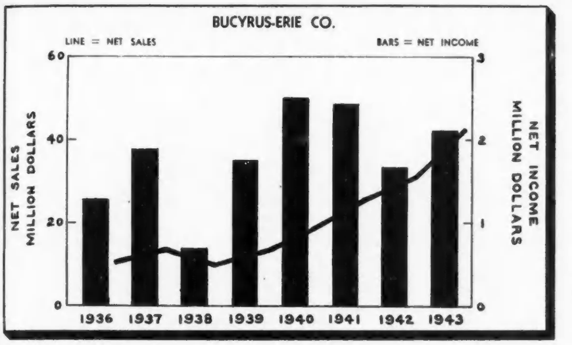
MARKET ACTION: Recent price—23 compared with year's high of 25¾ and 1937 high of 38½. Market volatility, originally above average, has become less as company grew in stature and reflecting stabilizing influence of excellent post-war prospects.

COMPARATIVE BALANCE SHEET ITEMS
($ millions)

	Nov. 30, 1939	Nov. 30, 1943	Change
ASSETS			
Cash	2.537	3.121	+0.584
Marketable securities	—	—	—
Receivables, net	3.143	5.469	+2.326
Inventories, net	5.888	9.042	+3.154
Other current assets	—	—	—
TOTAL CURRENT ASSETS	11.568	17.632	+6.064
Plant and equipment	7.851	10.127	+2.276
Less depreciation	3.434	4.385	+0.951
Net property	4.417	5.742	+1.325
Other assets	0.615	2.642	+2.027
TOTAL ASSETS	16.600	26.016	+9.416
LIABILITIES			
Notes payable	—	—	—
Accts. payable and accruals	1.404	2.894	+1.490
Reserve for taxes	0.873	1.220	+0.347
Other current liabilities	—	0.124	+0.124
TOTAL CURRENT LIABILITIES	2.277	4.238	+1.961
Deferred liabilities	—	0.240	+0.240
Reserves	0.398	1.337	+0.939
Capital	5.405	9.420	+4.015
Surplus	8.520	10.781	+2.261
TOTAL LIABILITIES	16.600	26.016	+9.416
WORKING CAPITAL	9.291	13.394	+4.103
Current Ratio	5.0	4.1	—0.9

Thumbnail Stock Appraisal

6 Sound Companies Without Reconversion Worries



BUSINESS: Company is the world's largest manufacturer of excavating machinery and related tools and appliances, used in general contracting, public works projects, dredging, irrigation, mining and levee building. All equipment made, including that of Bucyrus-Monighan, a wholly owned subsidiary, is adaptable for use with the company's steam, electric, internal combustion or diesel-electric power units. European business is handled by Ruston-Bucyrus Ltd., half-owned English company. Domestic plants consist of three main plants, a large steel foundry and metallurgical research laboratories.

OUTLOOK: War-stimulated demand together with ordnance business promises relatively good earnings for the duration. Thereafter, sales probably will resume their basic relationship to trends in construction and mining activities, with profits swinging over a wider range because of the leverage of large overhead. Immediate post-war prospects are promising. Larg deferred civilian demand for repairs and equipment parts should cushion the shock of contract terminations and extensive public works projects planned by the Federal, state and local Governments should sustain equipment needs at good levels. Reconversion problems are small and good post-war export demand should bolster domestic potentials.

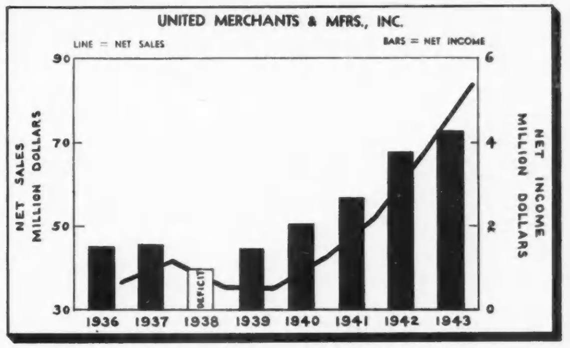
COMMENT: 1944 net should be around $1.30 per share compared with $1.39 last year. Pre-war earnings have been variable, due to dependence on business cycle, but post-war profits for some time at least should be considerably above pre-war average. Working funds are ample with cash items exceeding current liabilities and no new financing is needed or contemplated. Book value is $13.14 per share. Capitalization consists of 54,462 7% cumulative preferred shares and 1,235,219 shares of common.

MARKET ACTION: Recent price—11, close to year's high of 11½ and comparing with 1937 high of 25¼. Relatively heavy overhead and cyclical character of business makes for normally above average market volatility.

COMPARATIVE BALANCE SHEET ITEMS
[illegible]

	Dec. 31, 1939	June 30, 1944	Change
ASSETS			
Cash	2.583	3.852	+1.269
U. S. Treas. Notes	——	10.180	+10.180
Receivables, net	3.384	4.216	+0.832
Inventories, net	6.090	8.551	+2.461
Other current assets	0.124	0.028	—0.096
TOTAL CURRENT ASSETS	12.181	26.827	+14.646
Plant and equipment	10.730	10.472	—0.258
Less depreciation	5.486	5.307	—0.179
Net property	5.244	5.165	—0.079
Other assets	9.068	9.344	+0.276
TOTAL ASSETS	26.493	41.336	+14.843
LIABILITIES			
Notes payable	——	——	——
Accts. payable and accruals	0.817	1.775	+0.958
Reserve for taxes	0.548	9.318	+8.770
Other current liabilities	0.287	0.468	+0.181
TOTAL CURRENT LIABILITIES	1.652	11.561	+9.909
Deferred liabilities	——	——	——
Reserves	0.221	1.875	+1.654
Capital	11.960	11.620	—0.340
Surplus	12.660	16.280	+3.620
TOTAL LIABILITIES	26.493	41.336	+14.843
WORKING CAPITAL	10.529	15.266	+4.737
Current Ratio	7.3	2.3	—5.0

Thumbnail Stock Appraisal



BUSINESS: This is a holding company formed in 1928 to acquire a group of widely diversified textile producers and allied concerns, and since has become one of the largest units in the industry. In 1940, the consolidated companies distributed over 161 million yards of diverse fabrics, made mostly from cotton and rayon. Present capacity is held far in excess of this figure. Through subsidiary and affiliated companies, United is engaged in manufacture and sale of cotton, silk and rayon textiles in the U. S., Canada, Argentina and several other countries while it also conducts a general factoring business through its wholly owned subsidiary, United Factors Corp. About two-thirds of aggregate volume consists of rayon fabrics.

OUTLOOK: Continued growth of rayon fabrics, accelerated by war research, promises further long-term expansion in sales although yearly results will vary with the normally sharp cyclical fluctuations of textile operations generally. Over the medium term, demand should continue at record levels due to large deferred domestic needs and prospective heavy relief demands abroad. However, limitations on margins due to price ceilings, unless revised, plus a high tax rate will slow future earnings growth which in recent years has been remarkable.

COMMENT: Pre-war earnings averaged about $1.50 but only small part of earnings were paid out as dividends to bolster working capital. 1944 net should approximate $9 compared with $6.73 last year but no change in quarterly 50c dividend is anticipated. Finances are strong and earlier large bank loans, to provide for increased business and inventories, have been retired. Present capitalization consists of 60,000 shares of 5% cum. preferred stock and 575,174 shares of common while there is also a minority interest of $706,766. Book value is $42.24 and net quick asset value of the common is $27.17.

MARKET ACTION: Recent price—36½ compared with year's high of 39¾ which is also the all-time high. Despite the cyclical nature of company's business, past volatility has been no more than average, reflecting the marked growth trend over the past several years.

COMPARATIVE BALANCE SHEET ITEMS
($ millions)

	June 30, 1939	June 30, 1943	Change
ASSETS			
Cash & securities	1.655	10.553	+8.898
Receivables, net	9.447	17.253	+7.806
Inventories, net	4.818	13.061	+8.243
Other current assets	——	0.224	+0.224
TOTAL CURRENT ASSETS	15.920	41.091	+25.171
Plant and equipment	13.423	16.437	+3.014
Less depreciation	6.102	7.710	+1.608
Net property	7.321	8.727	+1.406
Other assets	3.876	2.174	—1.702
TOTAL ASSETS	27.117	51.992	+24.875
LIABILITIES			
Notes payable	5.755	4.064	—1.691
Accts. payable and accruals	3.197	8.897	+5.700
Reserve for taxes	0.324	6.036	+5.712
Other current liabilities	0.873	——	—0.873
TOTAL CURRENT LIABILITIES	10.149	18.997	+8.848
Minority Interest	0.245	0.707	+0.462
Short & long term debt	3.037	——	—3.037
Reserves	0.215	1.750	+1.535
Capital	5.999	12.092	+6.093
Surplus	7.472	18.446	+10.974
TOTAL LIABILITIES	27.117	51.992	+24.875
WORKING CAPITAL	5.771	22.094	+16.323
Current Ratio	1.5	2.1	+0.6

Thumbnail Stock Appraisal

A STUDY OF PHILCO

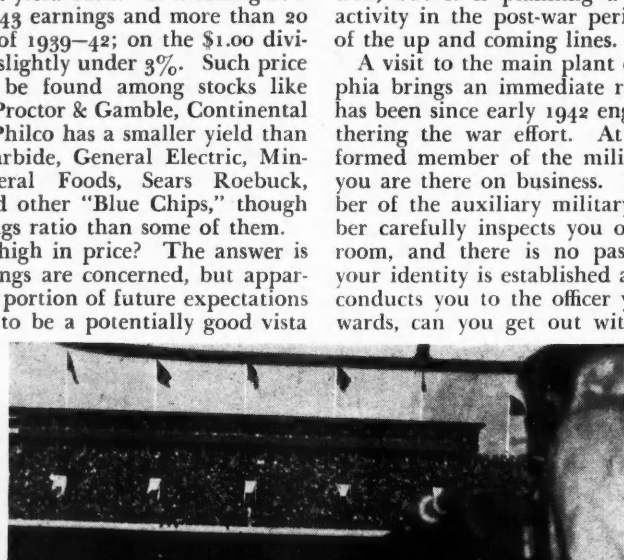
Post-War Potentials in Diversification

BY RICHARD COLSTON

Is Philco Corporation common stock entitled to sell in the "Blue Chip" class on a yield basis? It is selling at a price over 13 times the 1943 earnings and more than 20 times the average income of 1939–42; on the $1.00 dividend rate it has a yield of slightly under 3%. Such price ratios and yields are to be found among stocks like duPont, Eastman Kodak, Proctor & Gamble, Continental Can, and similar issues. Philco has a smaller yield than American Can, Union Carbide, General Electric, Minneapolis-Honeywell, General Foods, Sears Roebuck, Westinghouse Electric and other "Blue Chips," though it has a lower price-earnings ratio than some of them.

Is Philco therefore too high in price? The answer is *"yes,"* as far as past earnings are concerned, but apparently *"no"* if a substantial portion of future expectations is fulfilled. There seems to be a potentially good vista for peace-time Philco business and earnings. That is what the stock has been discounting in its rise of nearly 400% from the low of 1942 and nearly 170% from the 1943 low. Whether at present it has been over-discounted is another matter.

There are six lines of business in which Philco will be engaged in the post-war period and all seem to have expansion prospects. These are radios, electric refrigeration, television, air conditioning, batteries and deep freeze cabinets. Look at the radio and television stocks, and note that most of them are selling at high price-earnings ratios, and give very low yields or no yield at all, for they are discounting what is expected to be very active future business. A "vacuum" exists in the radio set market, after nearly three years since any were made for civilian use; and many millions will be wanted when they are available again. The same situation exists in household electric refrigerators, with hundreds of thousands wanted as soon as they can be made. When the accumulated demand for radios and refrigerators is filled, new markets will arise in the large number of new dwellings which will be erected in post-war years, as well as replacements for those which wear out or become obsolete. Air conditioning has expanded slowly in the past, but as a result of the demonstration of its uses in the war effort, is in line to become more important. Philco has continued to enjoy a very large market for its storage batteries and dry batteries during the war period, and further growth in this department seems assured. The making of deep freeze cabinets will be a new departure for the corporation, but it is planning a great development in this activity in the post-war period, and it seems to be one of the up and coming lines.



A Philco camera televising a football game at Franklin Field, Philadelphia

A visit to the main plant of Philco at North Philadelphia brings an immediate reminder that it is now and has been since early 1942 engaged almost entirely in furthering the war effort. At the main entrance, a uniformed member of the military police makes sure that you are there on business. The elevator girl is a member of the auxiliary military police, and another member carefully inspects you on arriving in the reception room, and there is no passing from that room until your identity is established and some responsible person conducts you to the officer you wish to see. Nor afterwards, can you get out without a pass or someone to vouch for you. Philco is making a number of "hush" products and in some departments only key employees can enter. Its known war work is most of all in a vast amount of communications equipment, especially radar and electronics devices, also ordnance materiel, artillery fuses, high explosive shell, armor-piercing shot, rocket projectiles for the "Bazooka" gun, and some other things which are still military secrets (for a long time nothing could be said about radar production).

The greater portion of the war work is in lines which will fit right into peace goods as soon as they can be manufactured. The making of radios, for example, could be started within almost a matter of hours, if word were given that they could be manufactured now, and large production would be possible just as soon as materials were available. Only a matter of a few weeks will be needed to get production going in electric refrigerators. These are the two products which have the most immediate markets in large quantity, waiting for the machinery to turn them out to get started. A talk with company officials gave the impression that they will be on their mark in sprinting position, ready to start when the signal is given, to race to get as large delivery as soon as possible, in these two lines. Television, radio-phonographs, electronics devices, air conditioning sets—these will follow before long, but not immediately on the first release of civilian goods. Batteries and radio tubes are being made now and there will be hardly any

change there in continuing to turn them out for some of the same customers as now, and for civilian lines in place of military ones. The deep freeze units are expected to be in production fairly soon after the European war ends.

In addition to the quick conversion of a good proportion of capacity to radios and refrigerators after Germany is crushed, Philco should continue to have quite substantial orders for its war goods as long as the war with Japan is on hence the first year after the European phase of the war ends, it may have sales comparing favorably with the present.

A Good Record

Philco Corporation started business in 1892 when five men with $10,200 capital formed the Helios Electric Company, later changing the name to the Philadelphia Storage Battery Company and taking the present title a few years ago. It was privately owned for many years, and the stock has been listed for only a few years, with about 40% of the outstanding shares still owned by employees, officers and directors. The making of automobile storage batteries was the first profitable endeavor, then batteries for other users, and with the first radios, Philco did a very big battery business until the electric-plug sets came to the fore.

In 1928 the company entered the making of radio sets with an output that year of 96,000 units, using mass production methods. The radio set assembly line turned out 400,000 in 1929, carrying Philco to second place in sales for that year, and it jumped to first place in 1930 and held it as the largest single seller through 1941, with civilian production ceasing early in 1942. It started making automobile radios in 1931 and between them and the end of 1941 produced over 4,000,000 of them, about one-third of all that were made for motor cars in that period. Its total production of other radio sets had been 13,500,000 to the end of 1941.

This total of all radios—17,500,000—to the end of 1941—exceeded that of any other radio maker in the world. Philco plans to keep up this record in the post-war period. The new sets at first will be much like the old ones, excepting that probably many more of the medium and higher priced ones will have frequency modulation. Later, some innovations and refinements will be introduced. The potential market for radio sets is placed at around 25,000,000 for the first three or four years after the war ends. The total market for radio-phonographs is not a large one, but this is a much more expensive product and unit profits are higher. Philco has a photo-electric device—"music on a beam of light"—in its combination which brought its sales of radio-phonographs to first place in 1941.

Electric refrigeration was not taken up by Philco until 1939, but by 1941 it represented over 22% of the gross business. It introduced several new features and more efficient arrangements of its interior in the dividing of the freezing units and the installation of a deep freeze compartment. This end of the business was just "starting to roll fast" when the war forced its discontinuation. With its resumption of production, Philco plans a national sales campaign and expects to be crowding the leading company in this field for first place in total sales before very long.

Near Philadelphia, the only television broadcasting station for that city and nearby territory is owned and operated by Philco. Each Saturday for four years it has sent to the receiving sets in that area the visualized and auditory action of the University of Pennsylvania football games. It also sends out other important events, entertainment features, etc. The resumption of making of television receiving sets is not as immediate as radio, but the company officials state their great confidence that their sets will be in the leadership and furnish a source of profit. Table sets will be priced around $125 to $150 retail, and larger ones up to $400.

Electronics devices are usually spoken of with television, but are really in a different field. There are ones for even-heating; for sorting all manner of things; for picking out flaws in textiles and other materials; for moving things (the door which opens when the light rays are interrupted is through using electronic control); for doing many things in the kitchen, office or shop. The devices are almost without limit. Some have been of great value to Philco in its work on war goods, including its "Master Mind," a device with 126 tubes which "thinks" by calibrating, calculating and recording dial readings many times faster than a human, and with no errors. Its use on war work in 1943 saved 144,000 man hours of labor and was instrumental in saving the Government $1,170,000 costs on just one type of radio equipment. Electronics devices applied to civilian uses may be a source of large profits for the company in future years.

In conjunction with the York Corporation, single room air conditioning sets have been sold by Philco since 1938, until operations were suspended in 1942 in this department. Philco-York sets attained top rank in this line in total sales. The small units are suitable for a fairly large office, for a large room, or apartment, or the whole floor in a small home, for small stores and small assembly rooms. A large field is expected for future sales. Philco also makes a room ventilator for placement on window sills or near windows. Mass produc-

Philco Corporation Statistics

CAPITALIZATION:	
Funded debt	None
"V" loan from banks, maturing Jan. 1, 1946	$25,000,000
Common stock, shares par $3	1,372,143
EARNINGS	
Gross sales, before voluntary refund, 1943	$135,199,527
Average annual gross sales, 1939-42	62,077,956
Net operating income, 1943	13,015,419
Average annual net operating income, 1939-42	5,195,437
Income and excess profits taxes, 1943	9,441,850
Income and excess profits taxes, average annual, 1939-42	3,282,662
Net profit 1943	3,572,143
Net profit, annual average, 1939-42	2,217,865
Earned per share on common stock, 1943	$2.60
Earned per share on stock, annual average, 1939-42	1.61
BALANCE SHEET, DEC. 31, 1943	
Cash and Government bonds	$18,383,410
Receivables	10,397,532
Inventories	22,462,399
Total current assets	$51,243,341
"V" loan	$15,000,000
Accounts payable	11,829,698
Provision for renegotiation and refunds	4,400,000
Other current liabilities	5,740,809
Total current liabilities	$36,970,507
Net current assets	$14,272,834
Net current assets per share	$10.41
Book value	14.91
PRICES FOR THE STOCK	
Range, 1940-1942, high-low	14⅞- 7⅝
Range, 1943	26¼-13¾
Range, 1944 to date	37 -24⅞
Recent price	34

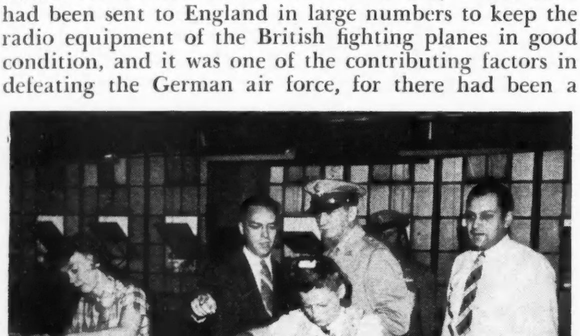
tion of these units is a promising activity for the future.

Storage batteries made by Philco are also used in connection with air conditioning, especially on trains, and in ships and mines. The battery business has been expanded materially during the war period not only for many uses for the Government, but also for civilian use, by public utility companies, railroads, mine locomotives, etc., also in heavy trucks. Sales in 1944 have been running close to 50% above last year.

The deep freeze cabinets are used by individuals for keeping frozen foods in their homes until wanted, and for wholesalers and retailers to maintain frozen eatables until they are marketed. The development of this business may be very large in the future, and Philco is planning to get an aggressive share. It has the sales force to handle it, the facilities for making the units, and the national distributing organization to make it possible for this activity to rank with its others, in the course of time.

Philco has maintained nearly all of its sales agencies, providing them with other products during the war, backing them with advertising both by publication and over its nation-wide radio broadcasting. Its agents are thus ready to resume selling radios and electric refrigerators as soon as they are on the market again, and will jump into the television set and other distribution when those products are available.

Before looking at the financial position of the corporation, mention should be made of the research work and personnel training. Philco has the largest research laboratories in the world in radio and electronic engineering work, employing 500 scientists, technicians and assistants, and the corporation has spent over $2,000,000 a year for this work. It has developed many things of great profit in the past, and of enormous help to the prosecution of the war during the past three years, including many actual discoveries and numerous improvements in the communications field. It has trained many thousands of radio specialists for the Army and Navy, and for our Allies. It trained a large corps of highly skilled technicians to instruct Army and Navy personnel throughout all of the home and foreign stations in the use and servicing of radar and electronic equipment. Before the United States entered the war, Philco men had been sent to England in large numbers to keep the radio equipment of the British fighting planes in good condition, and it was one of the contributing factors in defeating the German air force, for there had been a dearth of skilled radio technicians among the British.



Lt. General William Knudsen inspecting a Philco assembly line

The main items of the Philco income account for 1943 and comparisons with previous years are shown in the accompanying table. From the $135,199,527 actual sales, the greater part of which was to the Government, the corporation voluntarily returned $18,803,929 to the United States in the form of a post-contract price reduction, leaving actual gross received at $116,395,598. If this amount of reduction had not been made, it is to be assumed that about 90% of it would have gone into excess profits taxes, but that would have still left nearly two million dollars additional profit for the corporation, or about $1.50 a share. In addition, the 1943 income had $4,400,000 additional deduction for renegotiation of contracts, which by itself was another $3 a share on the stock. The actual Federal income tax was $927,100, and the Federal excess profits tax was $8,143,200. The last figure equalled nearly $6 a share on Philco stock, and if post-war excess profit taxes are repealed, there would be a large increase in per share earnings assuming sales hold up well.

The Excess Profits Tax

That excess profits tax, incidentally, is a sore point to Philco officials. In 1934 and 1935, net earnings had averaged better than $3,500,000, and in 1940, net was nearly $4,000,000. If earnings for these normal years in its business had been used, the excess profits tax exemption would have been far larger than on the 1936-9 figures used by the Government. Even if only the 1936 and 1939 figures had been used they averaged over $3,100,000. But in 1937 and 1938, a severe loss was entailed in total business because of a strike (labor relations have been very good in recent years). In 1937, the Corporation made only $724,311 net, and that was a year of exceptionally good business which it might have enjoyed with record profits, but for the strike. In 1938, it had a deficit of $206,468. These two years brought the average net for the 1936-9 period, used for EPT exemption, down to below $1,700,000. But for the strike, they might have been near to double that, and that would have saved, for net income, several million dollars paid in taxes in 1942 and 1943, and this year too, and as long as excess profits taxes are paid on the 1936-9 base.

Taking out the 1937-8 earnings, Philco net has averaged $1.83 a share for the other eight years of the 1934-43 period. In the first six months of 1944, it earned $1.39 a share after estimating taxes and renegotiation of Federal contracts. Business has been running 50% ahead of last year, with no likelihood of a change in the last quarter, hence net for the full year may be about $2.80 a share. For the present, no change in the $1 a share annual dividend is expected, but if the post-war earnings come up to what is expected, a more liberal dividend policy should result.

While no one can blueprint the future, it would seem possible for Philco sales to reach as much as $100,000,000 annually in good peace-time years. That would be roughly a fourth under present volume. Future profit margins are, of course, a question. It must be emphasized that products are of types in which competition for the public's favor will be keener than ever. There will be quite a few newcomers making radios, food freezers, television sets, etc., and they will not be "small fry." Mostly they are large or medium-size companies, long established and financially strong.

However, competition is not a new factor for Philco. Its main pre-war business— (*Please turn to page 49*)

Opportunities for Income and Appreciation in Bonds and Preferred Stocks

BY JACKSON D. NORWOOD

MARKET TRENDS: In the past two weeks a better tone has prevailed with the result that the Dow Jones averages for forty bonds gained .70, second grade railroads 2.82 and defaulted railroads 1.85. The proposed issue of Commonwealth Edison Company, Chicago, of $180,000,000 first mortgage Series L bonds, $155,000,000 of which is to be sold publicly, is the second largest registration statement ever filed with the Securities and Exchange Commission. Preferred stocks were in demand with important advances in such issues as General Steel Castings $6.00 preferred, American Locomotive $7 preferred and American Woolen $7 preferred. In the foreign field, Belgian 7s were in demand while Argentine 4½s of 1971 registered a decline of more than five points from their last previous sale.

PREFERRED STOCKS RECOMMENDED FOR INCOME

	Present Price	Income Yield	Call Price
1. American Crystal Sugar $6.00	105	5.71%	105
2. Republic Steel $6 Prior Pref.	97	6.19%	110
3. Raymond Concrete Pile $3 Pref.	50½	5.94	55
4. Philadelphia Co. $6 Pref.	102	5.88%	110
5. Bucyrus Erie $7.00 Pref.	120	5.83%	120

*Commitments should not be made above call prices.

PREFERRED STOCKS RECOMMENDED FOR INCOME AND APPRECIATION.

	Present Price	Income Yield	Call Price
1. Wilson & Co. $6 Pref.	92	6.52%	100
2. Gillette $5 Pref.	85	5.88%	105
3. Sharon Steel $5 Pref.	74	6.76%	105
4. Columbia Pictures $2.75 Pref.	43	6.40%	53
5. Rayonier Inc. $2.00 Pref.	31½	6.35%	37½

NATIONAL DISTILLERS PRODUCTS CORPORATION: This company has called its 3½% convertible debentures due March 1, 1949, on October 20, 1944, at 102. Investors holding this issue have only to October 20th in which to realize something on their conversion privilege. The common stock is now selling at 35⅝ but the conversion price of $35 a share for the stock is subject to change after the first $7,500,000 of the 3½s have been exchanged. For the next $7,500,000 surrendered, the price would be $40. There are $13,289,000 of the debentures outstanding, out of the $22,500,000 issued in 1939. Retirement of the debentures will leave Company with $13,500,000 of 3¼% debentures due 1949 and $15,000,000 of serial notes which are being issued to refund the 3½% convertibles.

OLIVER CORPORATION: This company, formerly the Oliver Farm Equipment Company, has registered with the S.E.C., 82,000 shares of $100 cumulative convertible preferred stock. The latter stock is to be offered to common stockholders at the rate of one preferred share for each eight common shares held on October 13th. Subscription warrants will expire October 25th. The yearly dividend rate is not to exceed $4.50 per share.

TUBIZE RAYON CORP.: Stockholders of this Company will vote on October 20th, to authorize $10,000,000 of preferred stock, of which $7,000,000 will be issued initially with a yearly dividend rate from $4.50 to $5.00. If approved, proceeds will be used to redeem the 7% preferred stock, to reduce the 3½% debentures by the sum of $2,450,000 and to add approximately $2,000,000 to working capital.

OHIO EDISON COMPANY: The Securities and Exchange Commission has approved the refinancing plan of this Company, which includes retirement of $52,446,000, of first 4% bonds and 198,952 shares of preferred stock, $5.00 and $6.00 series, now outstanding.

LIBERTY AIRCRAFT PRODUCTS CORPORATION: This Company has registered with the S.E.C. 80,000 shares of $1.25 cumulative convertible preferred stock, par value $20 and 160,000 shares of common stock which will be reserved for issuance upon the exercise of conversion rights for the 80,000 shares of preferred. Proceeds will be used to liquidate bank loans of $1,000,000 and balance to go to working capital.

OUTBOARD MARINE & MFG. COMPANY: This Company has sold to Mutual Life Insurance Company $2,000,000 of 3¼% notes due September 1, 1959. Proceeds are primarily intended to be used for advantageous post-war improvements in manufacturing facilities.

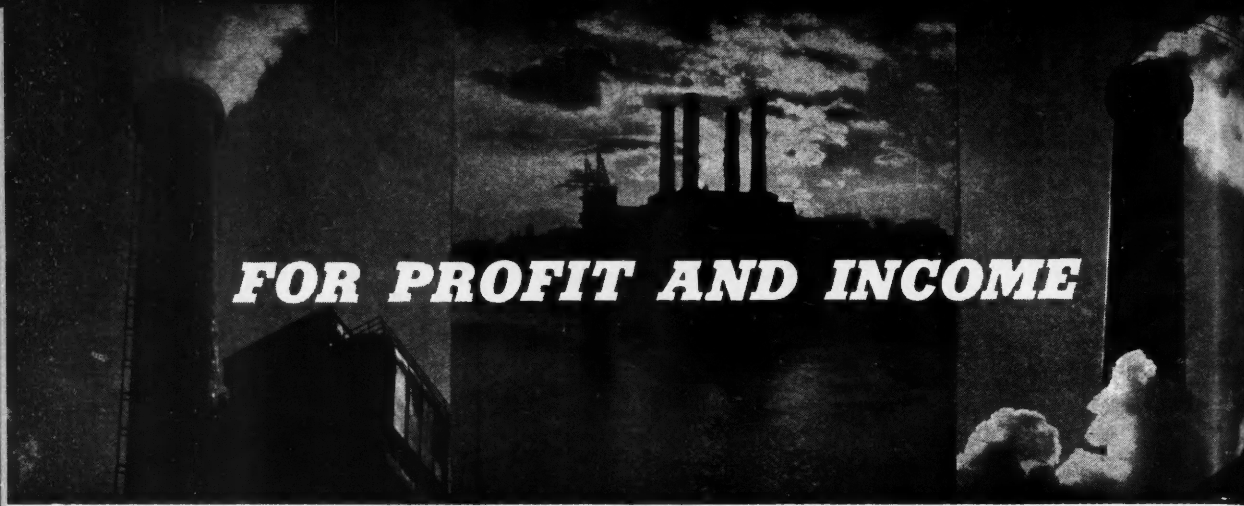
NORTHERN INDIANA PUBLIC SERVICE CO. PREFERRED ISSUES: This Company has announced that the 34,692 shares of its 7%, 6% and 5½% preferred stock not taken up under the Company's recent exchange offer will be redeemed at $115, $107, and $105 a share, respectively, through October 20th.

GULF STATES UTILITIES PREFERRED: This Company has just marketed thru a group of underwriters, 120,000 shares of $4.40 dividend preferred stock subject to the exchange rights of preferred stockholders under an offer that expired October 4th. The public offering price was $106 and in the writer's opinion, said price of $106 is not particularly attractive to potential buyers.

(Please turn to page 54)

RECENT CALLS FOR REDEMPTION

BONDS	Amount Called	Date of Call	Call Price
American Tobacco Co. 3s 1962	$3,000,000	Oct. 15	101⅛
Avery (B. F.) & Sons 5s 1947	Entire issue	Oct. 11	105
Central States Edison 3-5s 1950	Entire issue	Nov. 13	100
American LaFrance Foamite 5½s 1956	Entire issue	Oct. 16	105
National Distillers 3½s 1949	Entire issue	Oct. 20	102
American I. G. Chem. Co. 5½s 1949	$2,000,000	Nov. 1	100
Consumers Power 1st 3½s 1967	Entire issue	Nov. 1	105¾
Maryland Securities 5s 1949	Entire issue	Nov. 1	100
Northeastern Water Co. as successor to Delaware Valley Utilities Co. 6s 1956	Entire issue	Oct. 20	100
Brooklyn Union Gas 5s 1950	Entire issue	Oct. 27	102
Brooklyn Union Gas 5s Ser. "B" 1957	Entire issue	Nov. 1	103
U. S. Steel Serial Debentures 1949-55	All series	Nov. 1	Various



FOR PROFIT AND INCOME

Supply Area

Since early July the industrial average has spent more time "making lines" than in going anywhere. Recently it has spent a good many days edging out along a "shelf" at the 146-147 level. This is about halfway between the summer high and the September reaction low. Technically minded professionals disagree—as usual—over the "signs." Some think the market "acts well" and that the average will eat its way through the supply level in good style. Others think the rally is topping out under increasing offerings, that any further advance will be very small, that more reaction is shaping up. A third school thinks the averages will do nothing at all exciting either way for further weeks to come, perhaps with a more decisive move after the election, with direction of it depending on the winner. Certainly the action for nearly three months has to date given support to the "don't-expect-much-change" view. Meanwhile, pressure of restless money is putting a minority of stocks to new highs.

New High

Atlas Corporation has been among the equities making new highs recently. This is curious, for this investment trust—judging by its half-year report—has been bearish on the market outlook. At mid-year it was about 38 per cent in cash. How does one explain market bullishness on a bearish investment trust? Time will tell. Perhaps some "special situation" deal—Atlas being given to such things—is coming up. Atlas warrants on the Curb recently made a new high at 3. This publication recommended them in 1942 at 1/4 as an inexpensive "inflation hedge." At 3 the gross appreciation since the initial recommendation was 1,100 per cent, against 800 per cent when we last commented on this oddity about six weeks ago. The warrants are still far from any statistical value. We do not advise new purchases but we are going to sit patiently with the original suggestion because we are curious to see what percentage such speculation may eventually yield. For a time in 1933 the warrants sold as high as 10. Hope springs eternal.

STOCKS RECENTLY STRONGER THAN MARKET AVERAGE

Atlas Corp.	Lima Loco.
Best & Co.	Lockheed
Blaw Knox	McKess. & Rob.
Bucyrus Erie	Nat. Aviation
Comw. Edison	Pepsi-Cola
Con. Nat. Gas	Sears, Roe.
Container	A. O. Smith
Corn Products	Sun Oil
Crosley	Tex. Pac. L. Tr.
Ex-Cell-O	Thompson Pro.
Gotham Hos.	United Aircr.
Joy Mfg.	H. Walker
Lane Bryant	Wrigley

Selectivity

Some stocks making new highs have been bought on the reasoning that they were "behind the market." This is essentially a technical approach, taken more by speculators than investors. Improvement in the previously laggard "war stocks" reflects this kind of buying. Most of them, though by no means all, lack "investment status." Other stocks, in smaller number, meet selective demand on the reasoning that the investment values therein are still "reasonably attractive" even if by no means near the bargain counter in their market price cycles. Representative examples of this type are Columbia Broadcasting, Great Northern preferred, Loose-Wiles, Chesapeake & Ohio, American Gas & Electric, Bristol Myers, McKesson & Robbins, Food Machinery, Canada Dry. We have previously commented favorably on most of these.

Oil Shares

Selected oils have recently met with some increase in demand from investors who believed reaction had put them down into a sufficiently attractive buying zone. In most cases they have pulled up only slightly from reaction lows. For the average good oil the pros are: high asset value, relatively favorable tax position, excellent current earnings, potentials for further long-term growth. The cons are: not very generous dividend yield and uncertainty as to how much earnings will decline in the transitional and early post-war periods. Oils can, of course, react further—especially when and if general market weakness develops. But those of investment status are moderate market movers both ways.

Air Lines

Eastern Air Lines has placed $25,000,000 of orders for post-war delivery of Douglas DC-4 passenger liners and Curtiss Commandos. This follows previous private business in excess of $50,000,000 booked by Douglas. What this might mean to the manufacturers in profits is anybody's guess. It's a reminder that air transport expansion will cost a lot of money. The air line stocks don't look cheap.

Keeping Abreast of Industrial and Company Changes

Rail Equipment Outlook

It has for some time been a foregone conclusion that there will be large foreign needs for railway rehabilitation after the war and that American makers of locomotives and cars would in due time book some large orders. What has been uncertain, and still is, are the means and methods of financing payments. Russia and France especially have been making "inquiries." Rail equipment stocks recently had a brisk rise. The market is not only banking on a heavy total of domestic and foreign orders, but apparently is now willing to assume that financing problems on foreign business will be solved. The maximum potential of export business after defeat of Germany must be a matter of considerable conjecture. No doubt it will be very sizable. On the other hand, large foreign deliveries have already been made under Lend-Lease; and the railroading division of the U. S. Army will eventually have considerable surplus rolling stock for sale. Present Army railroading abroad is a huge undertaking in itself.

In The Money

That farm income is the highest on record is no longer news. For the first nine months of this year it is estimated at $13.8 billions by the Department of Agriculture, a gain of 6 per cent over a year ago. More interesting to us is the estimate by the same Federal agency that cash, bank deposits and War Bonds held by farmers have increased $12 billion during the war period. This implies that farmers have not only had the biggest percentage gain of any group in war-time income, but have also been able to save a larger percentage of the increment than any other group. Probably that promises good business for those who sell to farmers—including the farm equipment and automobile industries and mail order concerns—but food consumers will view the statistics with no great enthusiasm as they shop around for stuff which is often of inferior quality, when it can be had, and always of fancy price.

Magnesium

Magnesium, a metal wonderful in its ratio of strength to weight, is in increasing over-supply. Hence the persistent rumors, as yet unconfirmed, that all the magnesium producing plants owned by the Government may be closed down within a couple of months. New uses, both alone and in alloys with aluminum, promise a post-war consumption far above pre-war, but only a small fraction of war-time demand, as far ahead as anyone can foresee. Of course, pre-war applications were few and of slight economic importance. Magnesium-aluminum alloys will compete in all applications where weight is an important consideration in operating cost of the end product or in the convenience with which it can be handled and moved around. That applies to railway cars, automotive vehicles, elevators, hand and power trucks and lifts, movable household apparatus, etc.

Allegheny-Ludlum Steel

Following expected early retirement of its 28,388 shares of 7 per cent preferred stock—using some $3,100,000 of cash working capital for that purpose—sole capitalization of Allegheny-Ludlum Steel will be 1,262,000 shares of common as there is no funded debt. That is unusual in the steel business, for capital investment is in high ratio to sales and has usually required both bond and preferred stock financing.

New General Electric Plant

General Electric has plans for setting up a new plant at Anaheim, Cal., for post-war manufacture of plastics parts to be used in the manufacture of airplanes. Apparently G. E. does not share the view that very few airplanes will be built after the war, though it well knows that volume will be nothing like that now in hand.

War-Time Sales Expansion

The record for percentage expansion of sales during the war period is probably held by some unknown small enterprise—perhaps a one-man

Increases Shown in Recent Earnings Reports

		Latest Period	Year Ago
Waukesha Motor	Year July 31	$2.23	$1.56
Aviation Corp.	9 mos. Aug. 31	.55	.49
A. P. W. Paper Co.	Year June 30	.49	.15
Micromatic Hone Corp.	Year July 31	3.04	2.81
Avery (B. F.) & Sons Co.	Year June 30	1.73	.42
Gulf Oil Corp.	6 mos. June 30	2.36	1.23
Aircraft Accessories Corp.	Year April 30	1.64	1.21
Bulova Watch Co.	June 30 quar.	1.94	1.65
Cons. Gas of Balt.	12 mos. Aug. 31	4.61	4.04
Sparks-Withington Co.	Year June 30	.87	.55
Eastern Gas & F. Associates	12 mos. Aug. 31	5.77	4.85
Gimbel Bros., Inc.	6 mos. July 31	.98	.66
Motor Products Corp.	Year June 30	2.87	1.96
Consolidated Laundries	36 wks. Sept. 9	1.63	.16
Manati Sugar Co.	Year June 30	2.28	.22
United Electric Coal Cos.	Year July 31	1.53	1.42
Francisco Sugar Co.	Year June 30	4.52	.74
Norfolk & Western Rwy.	8 mos. Aug. 31	10.07	9.74
Northwest Airlines, Inc. (n)	Year June 30	1.45	1.28

machine shop that jumped into the aircraft parts business. Among listed companies, we know of no complete check that has been made on this point. There have been many huge inflations of volume, but probably not many have topped that of Continental Motors. In pre-war 1939 it grossed $7,256,000, with a deficit of 8 cents a share on its stock. Now sales for the fiscal year ending October 31 are expected to approximate $260,000,000, with net around $2.75 a share. Volume has multiplied nearly 36 times. Another way of putting it: 1939 sales were less than 2.8 per cent of the present level.

Carpenter Steel

Though steel is an industry pretty much of giants, there are same exceptions and the "small fry" more than manage to survive. A case in point is Carpenter Steel, listed on the New York Stock Exchange. Established in 1904, with its main plant at Reading, Pa., it is one of the oldest makers of high-price specialty steels; and its patents on stainless steel machining processes bring it important royalty revenues from many much larger steel makers. One difference between it and the largest companies is that it has paid continuous dividends since 1907. On sales of $7,953,000 in 1937, which was the record pre-war year, net was $3.31 a share, comparing with $3.44 on sales of $30,052,000 for the fiscal year ended last June 30. Thus the great bulk of war-time increase in pre-tax earnings was absorbed by higher taxes. Financial position is strong, with working capital of $7,917,000 being more than half of total assets, and with cash items nearly 45 per cent of net working capital. This year's dividends are expected to equal the $2.50 paid last year. High for the year was 32, recent price 31. Sole capitalization is 360,000 common shares.

Bank Reports

Third quarter operations reports of New York City banks generally showed considerable gains in earnings over a year ago and, in most cases, slight gains from second quarter figures. Chief reason is expanded total of earning assets in which the big item is investments in Government obligations. Deposits were lower than at the half-year, when they had been enlarged by Federal funds raised in the last war bond drive and which have since been drawn down. With another war loan coming up—this time $14 billion—the peak of deposit expansion is still ahead.

Continental Can

Continental Can continues its aggressive policy of building for the future by acquiring enterprises calculated to fit into its picture. The latest such move was purchase of the Mono Service Company of Newark, N. J., manufacturer of paper cups and food containers. Price is reported to have been $3,000,000 cash.

Competition

Post-war profit prospects in air transport appear less uncertain on domestic routes than on foreign. Which is to say that earnings potentials on international business seem more than a little conjectural. Eastern Air Lines has applied to C. A. B. for routes to Mexico and the Caribbean to compete with Pan American Airways, but for the present will not seek routes to South America. If post-war trans-ocean plane fares are cut as much as is now expected, it is hard to see how any profits can be left in the steamship passenger business. So far C. A. B. remains opposed to steamship companies getting into air transport. It will take a law by Congress to do it.

Prediction

Although electric generating capacity is now at a record high, the Edison Electric Institute believes there will be little idle capacity during the post-war readjustment period. Moreover, it forecasts that sales to domestic consumers in 1950 will be around 50 per cent greater than in 1943 on a physical volume basis —although estimates of volume gains by individual utilities over the seven year period range from 25 per cent to 100 per cent. That would be a very bright prospect—if one could be sure rates will not be cut in proportion as physical volume expands. But one not only can not be sure of this, but just the opposite. Such a volume gain would be certain to bring further decline in rates. Even so, eventual relief from the excess profits tax, coupled with even moderately low corporate income tax rates, could bring sizable improvement in utility earnings. The Institute expects industrial power sales to return temporarily to the 1939 level, then subsequently expand in proportion to peace-time industrial activity. The first part of this prediction will be questioned by many economists, for with reconversion going on while the Jap war is still in progress it is hard to see how industrial power consumption could sink to the 1939 level unless we get a real post-war depression.

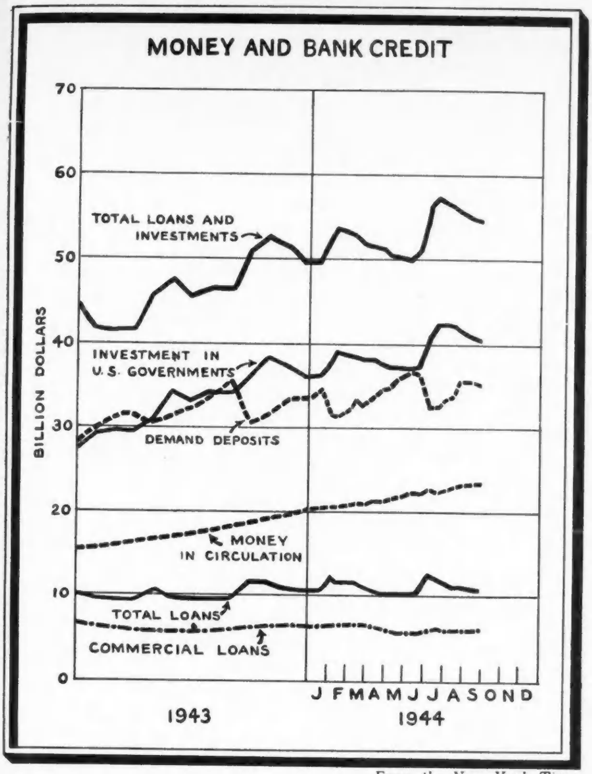
Digging Deeper

Nobody knows how much oil there may be in the ground, and the depths to which drilling can be extended are still gradually increasing. Drill crews of the Standard Oil Company of California recently set a new record for that state by going down to 15,009 feet in exploratory work in San Joaquin Valley. However, the world's record, previously established, is 15,279 feet in Pecos County, Texas. They do things big

(Please turn to page 50)

Declines Shown in Recent Earnings Reports

		Latest Period	Year Ago
Krueger (b) Brewing Co.	6 mos. July 31	.68	.74
Southern Pacific Transp. Sys.	8 mos. Aug. 31	7.94	14.58
Celotex Corp.	9 mos. July 31	.23	.58
Natl. Power & Light Co.	12 mos. Aug. 31	.71	1.11
Wayne Pump Co.	9 mos. Aug. 31	1.81	1.88
Carpenter Steel Co.	Year June 30	3.44	3.72
Outlet Co.	12 mos. July 31	5.63	5.88
Aluminum Industries, Inc.	Year June 30	2.97	3.91
Washington Gas Light Co.	12 mos. Aug. 31	1.89	2.45
Austin, Nichols & Co., Inc.	4 mos. Aug. 31	3.79	6.18
Beatrice Creamery Co.	6 mos. Aug. 31	1.61	2.09
Champion Paper & Fibre Co.	16 wks. Aug. 20	.73	.91
Mueller Brass Co.	9 mos. Aug. 31	2.96	3.53
Alabama Great Southern R. R.	8 mos. Aug. 31	7.61	9.41
Chicago, Burlington & Quincy	8 mos. Aug. 31	7.80	15.22
Southern Railway	8 mos. Aug. 31	9.41	10.40
Wheeling & Lake Erie Rwy	8 mos. Aug. 31	3.82	4.81
N. Y. Central R. R. System	8 mos. Aug. 31	3.95	6.74
American Sumatra Tobacco Corp.	Year July 31	3.06	3.16



From the New York Times

CONCLUSIONS

MONEY AND CREDIT—Sixth War Loan drive for at least $14 billion scheduled for Nov. 20, with savings bond goal set at $5 billion from Nov. 1 to Dec. 31.

TRADE—Department store sales in week ended Sept. 23 were 9% ahead of like period a year earlier, against increases of 12% for four weeks and 8% for year to date.

INDUSTRY—Should war in Europe be prolonged through the winter, there will be little unemployment and only minor business recessions for some years to come. Biggest problem will be to avoid inflation.

COMMODITIES—Commodity prices rise sharply under Government support program, with spot average at new war time high.

The Business Analyst

Business activity has sagged a bit lower since our last issue; but is still fractionally better than last year at this time, owing mainly to the extraordinary war demand for petroleum products and the high level of retail trade. **Department store sales** in the week ended Sept. 23 were 9% ahead of the like period a year earlier, compared with increases of 12% for four weeks and 8% for the year to date.

* * *

Beginning with the current issue, this publication's **indexes of business activity,** both with and without compensation for population growth, will appear as percentages of the 1935-9 average (instead of 1923-5, as hitherto) to facilitate comparison with the Federal Reserve Board's index of **industrial production.** It should be noted, however, that production (which is less than a third of total business activity) invariably rises and falls faster than the latter.

* * *

Our revised index is considerably higher than the old index; because the 1935-39 average was proportionately lower than the 1923-5 average. Readers who wish to maintain continuity between the old and the new index can do so by adding 20% to the old index on a

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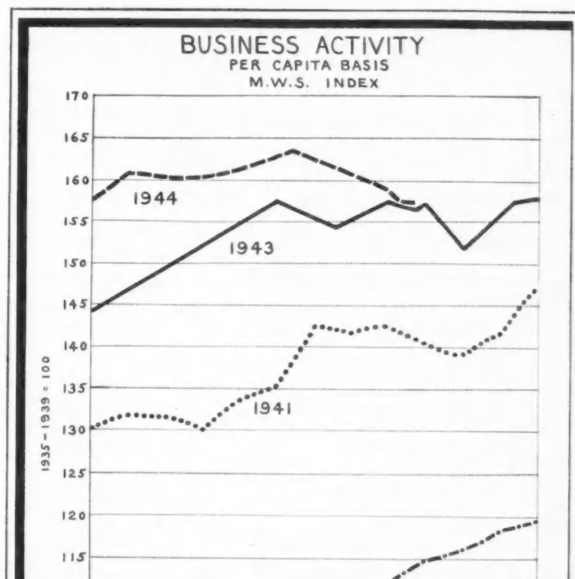


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Sept. 27	1.70	1.67	1.54	0.43
Cumulative from Mid-1940	Sept. 27	221.3	219.6	130.6	14.3
FEDERAL GROSS DEBT—$b	Sept. 27	209.2	209.1	156.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Sept. 27	34.5	35.5	30.6	24.3
Currency in Circulation	Sept. 27	23.7	23.6	18.8	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Sept. 27	5.40	5.70	4.86	3.92
100 Other Cities—$b	Sept. 27	7.31	7.61	7.28	5.57
INCOME PAYMENTS—$b (cd)	July	12.89	13.50	11.85	8.11
Salaries & Wages (cd)	July	9.17	9.20	8.40	5.56
Interest & Dividends (cd)	July	0.88	1.51	0.87	0.55
Farm Marketing Income (ag)	July	1.60	1.50	1.54	1.21
Includ'g Govt. Payments (ag)	July	1.65	1.56	1.58	1.28
CIVILIAN EMPLOYMENT (cb) m	Aug.	53.2	54.0	54.4	50.4
Agricultural Employment (cb)	Aug.	0.8	1.0	1.1	7.7
Employees, Manufacturing (lb)	Aug.	16.1	16.0	17.2	13.6
Employees, Government (lb)	Aug.	5.9	5.8	5.9	4.5
UNEMPLOYMENT (cb) m	Aug	8.6	9.7	9.6	3.3
FACTORY EMPLOYMENT (lb4)	Aug.	159	158	171	141
Durable Goods	Aug.	214	214	230	168
Non-Durable Goods	Aug.	115	113	124	120
FACTORY PAYROLLS (lb4)	Aug.	310	318	316	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	July	44.7	45.5	44.4	40.3
Hourly Wage (cents)	July	101.9	101.8	96.3	78.1
Weekly wage ($)	July	45.52	46.27	42.76	32.79
PRICES—Wholesale (lb2)	Sept. 23	103.7	103.6	102.9	92.2
Retail (cdlb)	July	138.6	137.8	134.4	116.1
COST OF LIVING (lb3)	Aug.	126.3	126.1	123.4	110.2
Food	Aug.	137.7	137.4	137.2	113.1
Clothing	Aug.	139.1	138.2	129.6	113.8
Rent	Aug.	108.0	108.0	108.0	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	July	5.46	5.59	5.23	4.72
Durable Goods	July	0.84	0.86	0.81	1.14
Non-Durable Goods	July	4.62	4.73	4.42	3.58
Dep't. Store Sales (mrb) $b	Aug.	0.46	0.38	0.39	0.40
Chain Store Sales (ca)	Aug.	200	193	184	151
MANUFACTURERS'					
New Orders (cd2)—Total	July	310	301	372	212
Durable Goods	July	488	445	420	265
Non-Durable Goods	July	197	208	176	178
Shipments (cd3)—Total	July	274	278	249	183
Durable Goods	July	381	378	346	220
Non-Durable Goods	July	190	200	173	155
BUSINESS INVENTORIES—$b					
End of Month (cd)—Total	July	27.4	27.6	27.5	26.7
Manufacturers'	July	17.2	17.2	17.4	15.2
Wholesalers'	July	4.0	4.1	3.8	4.6
Retailers'	July	6.2	6.3	6.3	7.2
Dept. Store Stocks (rb2)	Aug.	169	165	161	139

PRESENT POSITION AND OUTLOOK

(Continued from page 43)

per capita basis, and 5% to the former index without compensation for population growth. Percentage changes in business activity with the lapse of time are not affected by a shift of base; but the uncompensated index will rise a little faster, and decline somewhat less rapidly, than the curves on a per capita basis (graphed on page 43); because the population of continental United States is till growing.

* * *

For the month of September, our revised index of **business activity** on a per capita basis sagged to 157.4% of the 1935-9 average, from 160.1 in August; but was still 0.7 point ahead of Sept., 1943. Third quarter averaged 159.7, compared with 161.9 for the second quarter and 156.6 in the third quarter of last year. Nine months' average was 160.4, against 154.2 for the like period a year earlier. Without compensation for population growth, the revised index dropped in September to 167.9% of the 1935-9 average, from 170.8 in August; but was 1.4% ahead of the like period a year earlier. Third quarter averaged 170.4—two points lower than the second quarter; but 3.5% above the third quarter of 1943. Nine months averaged 170.8—5% better than for the first three quarters of last year.

* * *

Owing partly to elimination of overtime, the Commerce Department estimates that total **annual payments to wage earners** in the manufacturing field under peacetime full employment will be a third less than the current level of $32 billion. This may partly explain why the WLB is now disposed to endorse organized labor's demand to "break the Little Steel Formula."

* * *

Yet the OPA and organized labor want **reconversion goods,** mostly durable goods, to come back on the market at 1942 prices which, incidentally, averaged about 22% above the August, 1939, level. Ceilings on goods now in circulation (totalling $70 billion, or about 93% of consumer expenditures in 1943) will not be changed, says the OPA. (Unless wages go up meanwhile—Ed.)

* * *

A considerable amount of probably needless worry over the **post-war business outlook** springs from the fear that reductions in the Government's emergency expenditures will be so sharp that that reconversion can not soon enough, if ever, take up the resulting slack. Yet it begins to look as though Germany may be able to hold out until next spring, and it might take an additional two years to defeat Japan. Meanwhile

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—1—pc	Sept. 23	157.1	157.1	156.7	141.8
(M. W. S.)—1—np	Sept. 23	167.6	167.6	165.2	146.5
INDUSTRIAL PRODUCTION (rb3)	Aug.	232	231	242	174
Durable Goods, Mfr.	Aug.	349	348	365	215
Non-Durable Goods, Mfr.	Aug.	166	165	178	141
CARLOADINGS—t—Total	Sept. 23	899	892	907	833
Manufactures & Miscellaneous	Sept. 23	411	407	402	379
Mdse., L. C. L.	Sept. 23	108	108	103	156
Coal	Sept. 23	175	172	180	150
Grain	Sept. 23	50	50	53	43
ELEC. POWER Output (K.w.H.)m	Sept. 23	4,377	4,395	4,360	3,269
SOFT COAL, Prod. (st) m	Sept. 23	11.9	11.6	12.2	10.8
Cumulative from Jan. 1	Sept. 23	459	447	433	466
Stocks, End Mo.	July	61.4	59.7	75.6	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Sept. 23	4.74	4.75	4.34	4.11
Gasoline Stocks	Sept. 23	78.37	78.73	69.10	87.84
Fuel Oil Stocks	Sept. 23	62.51	62.24	66.90	94.13
Heating Oil Stocks	Sept. 23	44.78	43.56	39.12	54.85
LUMBER, Prod. (bd. ft.) m	Sept. 23	612	577	657	632
Stocks, End Mo. (bd. ft.) b	Aug.	3.6	3.5	4.0	12.6
STEEL INGOT PROD. (st.) m	Aug.	7.47	7.47	7.59	6.96
Cumulative from Jan. 1	Aug.	60.0	52.5	58.9	74.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	Sept. 28	30.8	19.2	50.7	93.5
Cumulative from Jan. 1	Sept. 28	30.8	19.2	50.7	93.5
MISCELLANEOUS					
Paperboard, New Orders (st)t	Sept. 23	125	129	144	165
U. S. Newsprint (st)t—Production	Aug.	60	60	68	83
Do., Imports from Canada	Aug.	235	218	232	283
Do., Exports	Aug.	1	1	2	1
Do., Consumption	Aug.	243	233	289	352
Do., Stocks (End Month)	Aug.	604	553	576	523

PRESENT POSITION AND OUTLOOK

there should be enough slackening in consumption of munitions to permit gradual resumption in production of civilian heavy goods; so that reconversion would be well under way by "V-E" day.

* * *

After Germany is defeated there will be an initial cut of 24% in munitions production, according to recent Washington estimates, followed by a further reduction of perhaps 16% during the ensuing six months. **A total cut of 40%** would amount to only $26 billion a year. Civilian production should be able to take up such a relatively small slack once reconversion is completed.

* * *

Meanwhile **export demand** for goods to rehabilitate war torn Europe, where destruction has been incomparably greater than during World War I, will be so tremendous that it can not be financed without heavy assistance from the United States. Instead of the much predicted post-war unemployment, it begins to look as though the greatest bottleneck to impede fulfillment of the huge pent up demand for domestic and export goods will be a **manpower shortage.** According to the War Manpower Commission, there will not be enough ships for some time to come to bring back all of our demobilized soldiers.

ag—Agriculture Dept. b—Billions. ca—Chain Store Age, 1929-31—100. cb. Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't. 1939—100. cdlb—Commerce Dep't. Index (1935-9—100) using Labor Bureau & other data. en—Engineering News-Record. 1—Seasonally adjusted Index. 1935-9—100 lb.—Labor Bureau. lb2—Labor Bureau. 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. m. Millions.mpt—At Mills, Publishers && in Transit. mrb—M.W.S., using F.R.B. data. np—Without compensation for population growth. pc—Per capita basis. rb2—Federal Reserve Board, adjusted index, end of Mo., 1935-9—100. rb3—Federal Reserve Board adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

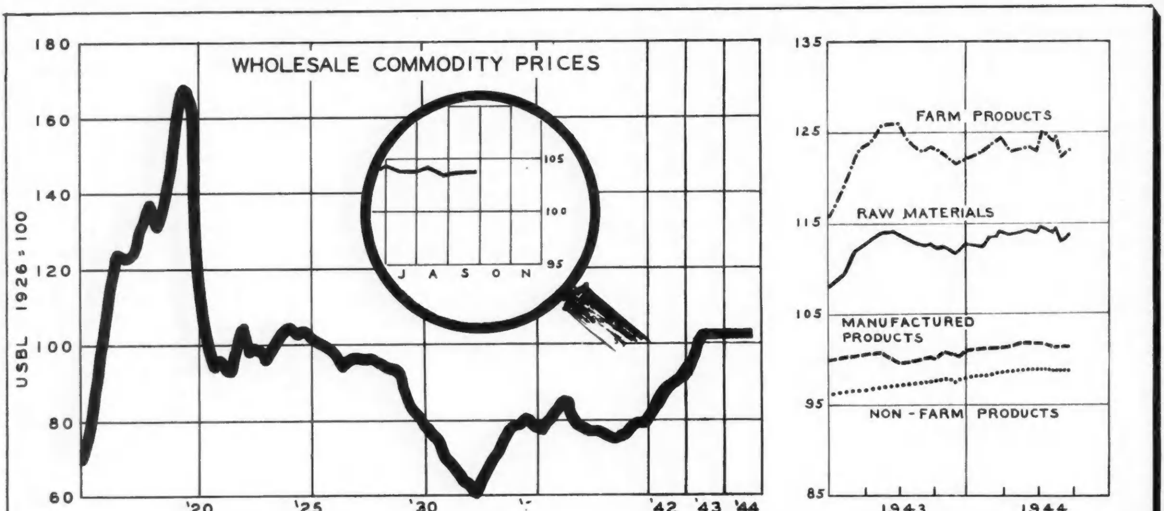
No. of Issues (1925 Cl.—100)	1944 Indexes High	Low	Sept. 30	Oct. 7
283 COMBINED AVERAGE	100.7	79.5	98.3	99.9
4 Agricultural Implements	178.9	148.6	174.1	177.3
9 Aircraft (1927 Cl.—100)	152.1	118.5	152.1A	150.8
5 Air Lines (1934 Cl.—100)	543.2	421.9	524.8	527.4
5 Amusement	82.2	68.2	74.1	76.3
13 Automobile Accessories	183.9	119.0	181.1	183.9Q
12 Automobiles	34.3	17.6	32.7	32.7
3 Baking (1926 Cl.—100)	15.0	12.9	14.2	14.3
3 Business Machines	216.4	171.9	213.0	216.1
2 Bus Lines (1926 Cl—100)	125.2	101.9	114.0	115.6
5 Chemicals	197.6	176.0	186.6	190.3
4 Communication	78.3	57.1	73.8	73.6
12 Construction	43.0	33.1	41.1	41.9
6 Containers	286.4	220.1	274.3	277.2
8 Copper & Brass	75.0	62.5	71.1	73.3
2 Dairy Products	47.7	38.6	46.9	47.7N
6 Department Stores	38.7	28.2	46.8	38.7G
5 Drugs & Toilet Articles	113.3	81.0	110.9	111.2
2 Finance Companies	248.9	216.1	240.0	245.7
7 Food Brands	141.7	123.1	136.1	136.8
2 Food Stores	54.4	46.5	54.2	54.4D
4 Furniture	83.1	56.4	79.7	81.1
3 Gold Mining	1075.2	879.8	952.8	963.8

(Nov. 14, 1936, Cl.—100)	High	Low	Sept. 30	Oct. 7
100 HIGH PRICED STOCKS	72.23	62.77	70.70	71.31
100 LOW PRICED STOCKS	107.89	75.33	105.01	106.95
6 Investment Trusts	42.7	34.0	40.5	42.0
3 Liquor (1927 Cl.—100)	365.4	291.4	346.8	355.0
8 Machinery	125.4	105.2	119.8	124.6
2 Mail Order	100.3	82.5	99.3	100.3G
3 Meat Packing	70.4	55.5	65.6	66.9
11 Metals, non-Ferrous	150.4	116.4	135.3	137.3
3 Paper	17.9	12.9	17.5	17.4
22 Petroleum	143.5	121.3	127.2	131.5
19 Public Utilities	59.9	48.7	57.1	59.0
4 Radio (1927 Cl.—100)	31.1	21.5	28.9	28.5
7 Railroad Equipment	64.4	51.5	63.8	64.4E
18 Railroads	20.7	14.1	18.9	19.1
2 Shipbuilding	90.3	70.3	90.3A	88.7
3 Soft Drinks	389.0	305.2	387.2	389.0R
12 Steel & Iron	82.7	65.7	77.2	79.4
3 Sugar	53.0	41.7	52.1	52.2
2 Sulphur	178.2	160.7	164.3	165.9
3 Textiles	57.6	48.0	54.9	55.4
3 Tires & Rubber	33.9	25.4	32.2	32.7
4 Tobacco	74.2	60.2	68.8	69.4
2 Variety Stores	257.9	219.7	252.9	257.9G
21 Unclassified (1943 Cl.—100)	131.4	98.7	129.7	131.4A

New HIGH since: A—1943; D—1940; E—1939; G—1937; N—1931; Q—1929. R—New all-time HIGH.

Trend of Commodities

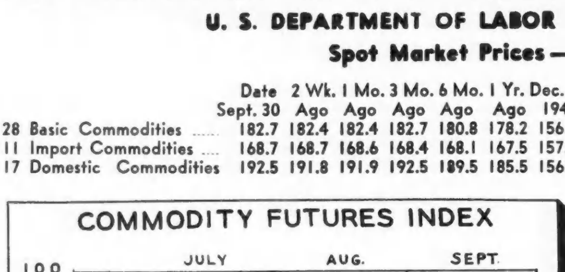
Under leadership of wheat and cotton commodity prices advanced sharply during the past fortnight, pushing the spot average up to a new war time high. Occasion for the fireworks was an announcement by the WFA that the Government will purchase at parity prices "all cotton of the 1944 crop for which a loan schedule has been announced and which may be placed in acceptable storage, and all unredeemed 1944 crop wheat which is under loan on May 1, 1945." To avoid disruption of exchange trading facilities the schedule of prices at which the CCC will buy and sell cotton between Oct. 1 and next Mar. 31 will allow a spread of 50 points between purchase and sale prices, thereby preventing a freeze of prices at parity. Wheat ceilings, along with subsidy rates to flour millers, are expected to be raised shortly; since the parity price on Aug. 15 was two cents higher than the parity on Nov. 15, 1943, upon which the present ceiling is based. Trading in corn futures on the Chicago Board of Trade was resumed on Sept. 14 after a suspension of nearly 15 months; but sales will be light until the new crop comes to market. Should offerings then be heavy enough to depress prices below parity (average price now received by farmers is about 7 cents above parity), the Government would doubtless adopt a support program similar to that just announced for wheat and cotton. The Government promises that ceiling prices on hogs will not be reduced prior to June 30, 1945. We would not advise speculative short sales of farm staples.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

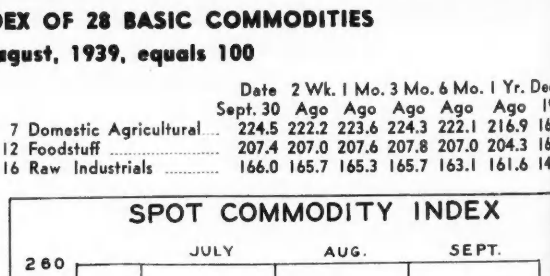
Spot Market Prices — August, 1939, equals 100

	Date Sept. 30	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	182.7	182.4	182.4	182.7	180.8	178.2	156.9
11 Import Commodities	168.7	168.7	168.6	168.4	168.1	167.5	157.5
17 Domestic Commodities	192.5	191.8	191.9	192.5	189.5	185.5	156.6
7 Domestic Agricultural	224.5	222.2	223.6	224.3	222.1	216.9	163.9
12 Foodstuff	207.4	207.0	207.6	207.8	207.0	204.3	169.2
16 Raw Industrials	166.0	165.7	165.3	165.7	163.1	161.6	148.2



Average 1924-26 equal 100

	1944	1943	1942	1941	1939	1938	1937
High	98.13	96.55	88.88	84.60	64.67	54.95	82.44
Low	92.44	88.45	83.61	55.45	46.50	45.03	52.03



15 Commodities, December 31, 1931, equal 100

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	1944	1943	1942	1941	1939	1938	193[illegible]
High	253.7	249.8	239.0	219.0	172.3	152.9	22[illegible]
Low	247.0	240.3	220.0	171.6	138.4	130.1	14[illegible]

What Higher Wage Trends Will Mean

(*Continued from page* 13)

Following completion of the 1920-1921 post-war depression, output per man-hour in manufacturing increased 28 per cent over the seven years 1923-1929, the much discussed and cussed Coolidge-Hoover boom period in which security speculation went far out of bounds. The average gain in productivity per worker was 4 per cent a year. At the same time average hourly wages increased only 18 per cent or an average of a bit under 2.6 per cent a year.

Was labor getting the short end? Was the lag between annual increase in productivity per man-hour and the annual increase in hourly wage a bad thing for "purchasing power" and therefore for general economic activity and jobs? Labor will tell you the answer to these questions is an emphatic yes—but don't be too hasty in swallowing it.

In the first place, it should be obvious that we could never have an expanding private enterprise economy if factory labor got *all* the benefit of increased producing efficiency. If annual increase in wage costs equalled annual increase in output per worker there would be no "percentage"—other things being equal—for management-capital to seek increased producing efficiency and no possibility of reducing prices charged the consuming public.

Over the period 1923-1929, factory labor got wage increases in the average proportion of 65 per cent of increase in productivity per man-hour. The question involved is not the "rightful" share of this or that group, but what are the requirements of a healthy, expanding private-enterprise economy. Certainly among them are these two: (1) that the wages of capital (i.e. profits) be high enough to induce productive capital investment; and (2) that the benefits of increased producing efficiency be generously shared with the consuming public via lower prices. The latter, as a matter of fact, is a more effective way of increasing "purchasing power" than is the raising of wages of minority groups.

From an economic point of view, if there is a valid criticism of the 1923-1929 division of the fruits of increased productivity, I would say it is not that labor got too little. It is, I think, that capital got more than was probably needed to induce an adequate volume of productive investment and *that consumers got too little in the form of lower prices.* The prices of finished goods declined only from an index number of 99.2 average in 1923 to 94.5 average in 1929 or less than 1 per cent a year.

There were various things the matter with the 1923-1929 period. Probably the two most important were (1) a foreign economic policy unsound and unworkable for a creditor nation, the sad fruits of which came home to roost when our foreign lending ceased to provide the dollar exchange that our debtors required and which we were not willing to provide through our imports; and (2) Government credit policies—including over-rapid retirement of the public debt—which not only encouraged over-speculation in the stock market but literally poured fuel on the fire.

However, while it lasted, there was nothing so very "uneconomic" about the 1923-1929 period with respect to productive investment, employment, wages, prices and real national income. Labor *did* have a substantial gain in real wages, with unemployment at a practical minimum. Consumers *did* have an increased volume of goods and services with at least *some* decline in prices. And the Government did not have to "make" work.

Recently the director of economic research for the United States Chamber of Commerce, Mr. Emerson P. Schmidt, made the following observation:

"Neither low nor high money wages should be our objective. Wages adjusted to encourage the economy to function at high levels of production and employment, and with regularity, should be our goal." He added that if the labor movement continues to "press the philosophy of higher wages," our post-war economy will either bog down or skyrocket into inflation.

Mr. Schmidt's concept of "economic" wages is perfectly sound. But, unfortunately, wage rates never have been—and in this country probably never will be—"adjusted" on that detached, scientific plane. They have been made by negotiating between employees and employers motivated by self-interest on the narrow plane, by compromise, often by economic war (strikes and lockouts) with a strong class angle—and, in more recent years, by Government intervention which always ended by getting labor some or all of its demands.

Well, from all the signs, labor will continue on the "winning" side

with the help of the Government—only there is a very real question whether the long-run "winnings" will be the pure gold that labor seems to imagine. Labor is going to get higher hourly wage rates. But it can not have it both ways. If wage increases continue to outrun increased production per man-hour—as they have persistently done in recent New Deal years and even more during the war years—we will not get high level employment out of private investment and the purchasing power of consumers in the aggregate will eventually be reduced rather than increased.

The probable consquences will be in the following sequence: (1) There will be a squeeze on profits, in which the chief factors will be increased unit labor costs and ceiling selling prices; then, (2) an eventual relaxation of the price and rationing controls, followed by a rise in prices of manufactured goods.

How far the rise in prices of manufactured goods will go, if the wage rates are further raised, will depend mainly on whether and how soon output per man-hour can be brought into a normally profitable relationship to wages. That will require either (1) a considerably greater increase in producing efficiency than has been attained at any time over the past twenty years; or (2) a cessation in the wage demands of the organized labor minority while the rest of us catch up at least part way—farmers excepted. (They are doing all right.)

The damage done to our economy—and to the American people as a whole—by uneconomic wage policy will be in large measure concealed, or deferred, as long as we have large war production, but will come home to roost most tragically when we have returned to peace. Now the Government—present and future taxpayers—is subsidizing manufacturing (and other business) operating costs in very large degree. When higher wage costs produce a decline in corporate pre-tax earnings, the major part of the bill is footed by the Treasury via lower tax intake.

Henry Ford, being a business man, had productivity—as well as wages—in mind when he said recently he was ready to raise wages *if labor would give him an honest day's work for an honest day's pay.*

If labor doesn't do exactly that—more specifically than Mr. Ford put it—our economy is not headed for post-war "normalcy" but for no end of disappointment and frustration. Only those who would like to see all of us look to the State for our jobs—especially the Communists—will be pleased.

Industrial wage workers now have a "take home" of about $32,000,000,000 a year, the increment over 1939 being accounted for as follows: Increased employment, 32 per cent; increased hours, 16 per cent; increased overtime premium, 10 per cent; movement from lower to higher pay industries, 10 per cent; increase in straight-time hourly earnings, 9 per cent. These are Department of Commerce estimates. The same agency estimates that, *even under full employment conditions after the war the present $32,000,000,000 total of industrial wage payments will shrink by about one-third or over $10,000,000,000 a year.*

Full employment and excessive wage costs, however, just don't come in the same package. That is why a further rise in basic wage rates will seem to me, on the whole, more deflationary than inflationary.

A Study of Philco

(*Continued from page 38*)

radios—was always decidedly competitive. Various other companies, including some large and well-known ones, made radios long before Philco did—but Philco wound up in top trade position. That testifies to the "know-how" and resourcefulness of its management. The great emphasis put on research—on which the writer commented earlier in this analysis—is further evidence of aggressiveness. So far as sales and profit margins are responsive to the management factor one can have confidence in the outlook.

Nevertheless, the question of possible per share earnings after the war can only be highly conjectural. Sales might be $100,000,000 or they might be two-thirds that, or even only half in some years. Operating profit might be 15 to 17 per cent of sales, or it might be cut to 10 to 12 per cent. There is a question as to how much of the coming increased civilian business will be done while the excess profits tax is still in effect; and whether thereafter the effective Federal tax rate during the period of anticipated active business — the "catching up" period—will be 50 per cent or 40 per cent or 30 per cent.

So fancy figuring—guess-estimating—of Philco's post-war per share possibilities runs all the way from a handsome $6 a share or so to amounts much more moderate. Only the future can give the answer to this. If one assumes that that future is bright, it is nevertheless prudent to bear in mind that the stock has already had a very large percentage advance. Bullishness on it would have a more solid basis if the stock were 5 to 10 points lower.

Philco has maintained a strong financial position. It has used $25,000,000 of its $30,000,000 "V" loan credit as part of its working capital, and carries this bank loan as a current liability. It matures on January 1, 1946, but may be paid off sooner with funds received from Government contracts. At the end of 1943 only $15,000,000 of the "V" loan was used, and at that time, the net current assets were $14,272,834. As of the end of the third quarter of 1944 it is understood that cash and Government securities were well above the figure at the end of 1943 and that net current assets were larger than at the end of 1943, despite the increase of $10,000,000 in the "V" loan in the interim.

Sour Note in Concert of South American Nations

(*Continued from page* 19)

corrupt, but, with the Army backing them and with no effective political opposition, there was not much chance of removing them. In the Summer of 1943, however, when it became apparent that the discredited land-owning oligarchy would force still another candidate on the country (an owner of about a million acres in the North), the Army took matters in hand and staged a revolution.

Unfortunately for the country, the first army group in power, the Raminez clique, decided against calling elections, thereby losing the popular support, and when its foreign policies eventually bogged down, about the only alternative was to hand the reins over to an ultra-nationalist, fascist-inspired group of colonels whose ambition it is to rebuild Argentina into a self-sufficient corporate state. The Army fascists have already placed "commissars," the army interventors, over key areas and in various foreign corporations. The avowed goal is to revoke foreign concessions and force foreign capital to accept Argentine nationality. They consider themselves as representing the true spirit and ideals of Argentina which they profess to defend against the Yankees abroad and against the disfranchised middle class at home. Thus the revolutions of June last year and of March this year were carried out by a small group of reactionaries whose roots are in the past rather than in the future. There is apparently nothing to do but to wait until the loosely organized, inert Argentino voter is forced by circumstances to take once more a part in molding his nation's future.

Keeping Abreast

(*Continued from page* 42)

in Texas. What with one thing and another, there has been a considerable waning of the scare about our future oil resources.

Post-War Cars

Much is "cooking" in the automobile industry but far from the "jell" stage. For some time to come rumors will be plentiful, known facts few. Everybody asks what the Fisher Brothers are going to do. Assuming they have decided, they are not yet saying. Indeed, they say their plans are not formulated. The two corporations they recently set up have charters broad enough to permit manufacture and distribution of almost anything. It is now a certainty that at least several companies will introduce new lightweight models aimed at lowest possible prices. Graham-Paige, under its new management, says flatly it has such a car coming up. Ford does not deny plans for a "cheap" model. Other "lightweights" to be heard from are Willys-Overland and Crosley. On the Pacific Coast Henry Kaiser, Lockheed and Consolidated Vultee are known to have given, or to be giving, more than casual consideration to the idea of making automobiles.

Rail Refunding

Money rates have been "cheap" for a long time, permitting debt refunding at lower interest costs by many corporations with high credit ratings. The first big wave of refundings was in the electric utilit

field, yet pressure of investible funds is so great that still further savings are being found possible here, as witness current large Commonwealth Edison program. However, railroads have taken the spotlight in refundings and from all the signs the movement will continue to grow. Perhaps nothing illustrates the change in rail credit more strikingly than to note that the Erie, not so long out of receivership, recently refunded a bond issue on a 3¼ per cent basis. And the reorganized Wabash asks bids for refunding a 4 per cent issue.

The Up and Coming Plywood Industry

(*Continued from page 29*)

average was pulled down by a sizeable deficit in 1938. The best year was 1941 when $2.57 a share on the common was reported.

At the end of 1943, Mengel had a net worth of nearly $11,000,000, total assets of $12,561,375. The capitalization consists of $2,500,000 3¾% debenture bonds due in 1959; 65,040 shares of $2.50 preferred stock, par 50; and 417,681 shares of $1 par common stock. The bonds were issued early in 1944, with the proceeds of their sale being used for the retirement of a 4½% bond issue which would have matured in 1947. The preferred stock has received its full dividends to date; it is callable at 55 and convertible on a basis of one share of preferred for three shares of common. The common stock had received dividends in the 1920s but payments had been suspended for a number of years when they were resumed in 1941, with 50 cents a share that year. In 1942 and 1943, payments were 25 cents a share and the same is indicated for 1944. The company is in a position to pay more, but is building up a larger working capital for the expected expansion in business in the post-war period. Its working capital at the end of 1943 was $4,929,260.

Mengel has several specialized products in addition to its plywood, furniture, containers, etc. These include the Kemper kitchen cabinets, "Mengelbord," a patented plywood panel, "Mengel doors," a patented flush-type door, and the "Flexwood" and "Flexglass" made and sold jointly with the U. S. Plywood Corp.

Atlas Plywood Corp. is the smallest of the three. It did not make public its gross business for the year to June 30, 1944, which was stated to have been 36% above the approximately $9,000,000 gross the year before. The gross profit of Atlas in 1944 fiscal year was $3,495,523, which exceeded the operating profit of either Mengel or U. S. Plywood. The Atlas taxes were $2,075,000 after deducting the post-war credit, and its net profit of $784,691 was equal to $1.66 a share on the common stock. For the eight years through 1944, the company averaged $1.40 a share annually. The best year was 1942 with $2.08 a share.

Atlas Plywood had nearly $6,900,000 net worth at the end of the 1944 fiscal year, $9,950,500 total assets. The company was formed in 1926 and had a steady growth, but somewhat slower than that of the other two. Capitalization consists of 49,416 shares of $1.25 preferred, par $20, callable at 27 and convertible on a basis of one share preferred for two common; and 433,524 shares of $1 par common. Dividends on the preferred have been paid in full. The common stock has been increased by a 100% stock dividend in 1929, a 100% stock dividend in 1943 and by the sale of 150,000 shares in the early part of 1944. The dividend rate on the common was increased in the third quarter of 1944 from 15 cents to 20 cents, and the same payment is looked for in the last quarter, to bring the total for 1944 to 70 cents a share.

Atlas has specialized in plywood

containers, and is considered the largest maker of packing cases in the United States and Canada. They are used in a great number of ways, from small ones for textiles to very large ones for automobiles, farm machinery, etc. During the war, the major part of the company's products have been used by the armed forces. In order to supply the needed lumber, Atlas has acquired a large amount of standing timber, and has entered the logging business.

While all three of the plywood company stocks have had substantial advances from the lows of the past few years, they do not seem to be seriously overpriced, in view of the expected prosperous business envisioned for the peace-time markets. The expansion in the use of plywood in building, for containers, etc., has led to the belief that the post-war years may surpass those even of the war period.

These companies do not have any conversion problems, for it will be a matter of turning out much the same products as for the Government. All three have maintained some of their civilian trade, where supplies were obtainable, and all have some large orders, waiting for the materials to fill them. As is the case in industry in general, the tax question will have a great bearing on future earnings, as the major part of their recent income was paid out in taxes and the repeal of the excess profits tax would be a great boon to them. Speculative investment purchases, if made during substantial reactions, appear to hold much above average promise for the longer term.

Small Companies With Strong Growth Prospects

(*Continued from page 22*)

fundamental consideration imparting definite growth potentials to this industry.

Real growth factors exist in the plywood industry, recently discussed in detail in the Magazine. Atlas Plywood during the post-war cycle should confirm and extend its marked growth trend during the past decade. Mengel Co. with its new interest in plywood added to its diversity of wood products should be able to improve markedly over its erratic pre-war record.

The strong secular growth trend in the development and use of metal alloys brightens the longer range outlook of such alloy makers as Rustless Iron & Steel Co., Fansteel Metallurgical, Bohn Aluminum and others, especially those specializing in light metal alloys. Alloys for numerous purposes promise to be in increasing demand and new combinations, many still military secrets, and new uses in wider fields are anticipated. While competition will be keen as a result of war-expanded capacity, industry growth should continue.

In the tire industry, Lee Rubber and Norwalk Rubber present typical examples where small units of an industry stand an excellent chance to improve their relative position by capturing a proportionately larger share of the post-war market. Lee of course did well before the war, with a steady growth trend during the Thirties, and should have no difficulties in extending this trend. Norwalk's past earnings were meagre and erratic and tire building capacity was small. The latter now has been expanded, enabling the company to command a larger share of the future market. It will be up to the management, of course, to become entrenched in the improved position that will almost certainly result from the coming scramble for civilian tires.

In discussing growth potentials of the companies mentioned in this article, there is no intention to imply that their future growth is a foregone conclusion. All that can be done is to point out where opportunities for growth exist. Selection of growth stocks has never been a simple matter and additionally requires painstaking examination of all pertinent factors on an individual basis, such as has often been done in the Magazine. The companies mentioned, however, operate in fields where growth potentials are obvious or else should benefit from new processes, diversification, plant and financial expansion.

Strictly new industries such as electronics, television and many synthetics in the plastics and fibre field are predominantly speculative with no assured growth trend, earningswise, in prospect for at least some time to come though volume may gain fantastically as formerly in radio. On the other hand, new industries out of the pioneering stage such as air conditioning, plywood, light metals, new processes in metal fabricating and even aircraft manufacturing (if deflated to normal levels) appear to offer better prospects of producing genuine growth companies during the next business cycle, suitable for investment without undue risk of capital. It is in these fields where many small or medium-sized enterprises, fed by large war orders, have flourished, gained new and more diversified know-how of production and generally assumed a more impressive stature which should enable them to capitalize handsomely on future opportunities, to compete better with their larger or old-established rivals, to capture a larger slice of available business, to entrench themselves more firmly. The latter, in particular, will be the cherished goal of every maker of consumer durable goods.

In spite of the multitude of potential growth situations that suggest themselves, the investor still faces a dilemma. In many, probably in most situations discussed in this article, growth for some time has been a general expectancy, and where growth is *generally* expected, the price is rarely reasonable. In other words, most of the growth prospects now in sight along our industrial front have been largely discounted, some over-discounted. Timing of purchases thus is all-important and future market reactions will offer far better buying opportunities than current price levels. There is another point to remember. If an investor chooses newer companies wi

only a short record of expansion, he runs the risk of being deceived by temporary prosperity. Not all companies will succeed in maintaining their growth record; some, for competitive or other reasons, may eventually run into serious difficulties, not the least of which may root in overextension, a frequent phenomenon in periods of business expansion. Thus, as to selection, there is nothing that can take the place of thorough individual analysis and constant review of fundamental trends in industries and companies involved.

International Telephone on the Road Back

(*Continued from page 32*)

rarily check the company's recovery of earning power, and the management's policy of debt reduction may (if continued, as appears likely) defer resumption of dividend payments indefinitely.

Dissecting Our Potentials for Prosperity Income Level

(*Continued from page 10*)

for consumer durables. Even then, total outlays would only amount to \$108.6 billion, leaving a "deficit" of \$11.4 billion which somehow must be made up if our gross national product is to be sold. Even so, the projected expenditures would call for a record volume of consumer spending. In terms of 1941 dollars and compared with 1941 expenditures, it would call for a \$4 billion increase in durables, a \$5 billion increase in non-durables and a \$4 billion increase in services, and 1941 was an excellent year. These are sizable increases indeed, exceeding 1941 output anywhere from 14% to 44% (allowing for price change) and yet nowhere sufficient, though it is difficult to visualize higher outlays especially for non-durables and services.

Nevertheless, even greater spending will be necessary to achieve the goal with special emphasis on non-durables and services where we must look for greatest expansion potentials. Much is being said about the enormous deferred demand of consumer durables and much is made of the potentials of these "backlog industries," but what about it?

Appended is a table listing, over a number of years, consumption expenditures in typical backlog industries. It shows that such outlays in 1941 totalled only \$8.6 billion, a fairly close approximation of the total of \$9.1 billion embracing all consumer durable goods expenditures for that year. For post-war, we have projected a total of \$16.2 billion which adjusted to 1941 dollars would approximate \$13 billion or 44% over the 1941 figure. In the light of this, it is evident that even doubling 1941 sales of consumer durable goods, and this would be a generous expectation not like-

ly to be realized in any one year, would fail to make a decisive dent in the "spending deficit" of $11.4 billion previously established.

True, there is also the important matter of accumulated savings and some of them must be expected to be expended after the war. We shall deal with this later. As to durable consumer goods, existing backlogs of demand will hardly be filled in a single year; rather such spending is likely to be spread out over two or three years, perhaps longer depending on general economic conditions. Durable goods, after all, are postponable and therefore most sensitive to economic conditions and price trends. The backlog potential conceivably may be considerably thinned for any one year, should consumers decide to hold out for lower prices. Another possibility assumes increasing importance, namely dilution of the replacement boom by a fairly long drawn out transitional period, the time between VE and VJ. It will take the cream off the post-war boom, minimizing boom level potentials thereafter when full reconversion is completed.

Estimates of accumulated individual savings run high but little is known about their distribution and, without the latter, only very general spending implications can be attached to their existence. Also, whatever their aggregate amount, not all by any means can be considered expendable, and strange as it may sound, large segments of our population have either no savings or very small ones. The matter of distribution thus assumes major importance and here, unfortunately, we are very much in the dark. Conversion of savings into goods, however, is naturally subject to important limitations and reservations. Consumers may be fearful of the future, and therefore cautious in their spending. Should the reconversion process prove slow and difficult, with considerable unemployment, a goodly part of existing savings, probably the most volatile part, may soon be used up and thus, for instance, could not be expected to bolster durable goods buying. In short, the general economic climate and its effect on spending mentality will importantly govern the channelling of savings into goods and services or, on the other hand, determine retention of savings rather than their spending.

Still and all, it may be a reasonable estimate that some $3 billion annually, in the years immediately following the war, may be converted into goods and services. If so, this would reduce our projected "spending deficit" to somewhat over $8 billion, an amount large enough to get us started on a deflationary trend. Either that or the Government must step in by somehow making up the difference in demand. It can do that by pumping funds into the nation's income stream as outlined in our earlier blueprint of post-war economic policy. It can finance exports, start big public works programs. There are many possibilities but there is no assurance whether in their aggregate they can bulk big enough to achieve the desired end. During the last depression, for instance, maximum pump-priming efforts never exceeded $3.5 billion in any single year; road building never came higher than $2 billion a year. Even forced exports could hardly get the total to exceed $8 billion which, assuming imports of $5 billion, would raise net exports to only $3 billion from the projected $2 billion.

Moreover, all such steps would be distinctly inflationary, requiring new funds for the Government, increasing the debt and interest burden and further putting off the day when we can think of debt reduction. As an inevitable corollary, it would void the prospect of tax reduction, a requisite for high level production. Yet it is more than probable that without Government sponsored injection of purchasing power, there is no prospect of selling a national product of $170 billion. Farm income, now exceeding $20 billion, is bound to decline considerably unless protected by price support policies. Income in manufacturing industries is estimated to shrink one-third with the return to the forty-hour week, even if employment continues at a high level. Deflation of the income stream, especially during transition, is a virtual certainty. It will have the usual depressing effects on agricultural prices, farm income and distributive profits but beyond that it will also tend to deflate post-war boom potentials to an as yet unknown degree. This is why the longer range implications of reconversion of industry weigh heavily on present-day stock market thinking.

As cautioned before, the foregoing projections must not be viewed as a forecast (which no one is in a position to make) but rather as a realistic attempt to examine the problems of tomorrow in the light of past experience and under consideration of factors which we know will operate in the future. Other factors, neither known nor predictable, may enter the picture and to that extent, any theoretical projection must necessarily be incomplete.

But whatever the lack of finality, the conclusion is justified that doubling our national product and national income—to carry our debt—is a formidable problem and there is no assurance that it can be done in orthodox fashion. Soberly viewed, this prospect should take some of the froth from the heady cup that has been passed around among those who see a post-war boom of great dimensions based on pent-up demand and nothing else. The latter, we most regretfully conclude, is not nearly enough; actually it shapes up as a relatively minor though definitely helpful factor relative to the total problem which after all is permanent, not temporary such as backlogs invariably are.

Little wonder then that the market finds it difficult to make up its mind. The question is not only whether we are heading for inflation or deflation, important as it is. It is the entire range of deep-seated problems that arise with the possibility of our embarking on a compensatory economy, what it will do to industry's position, earnings and future prospects generally. Until these things are clarified, or begin to be clarified, until we know what we are heading for, the stock market can hardly be expected to undertake decisive major moves.

Opportunities for Income in Bonds and Stocks

(*Continued from page 39*)

ARGENTINE REPUBLIC: Holders of this Republic's 10 year sinking fund external loan 4½% bonds due November 1, 1948, have been notified that $903,000 principal amount have been drawn for redemption on November 1, 1944, out of moneys in the sinking fund.

HACKENSACK WATER CO.: The company's $1.75 preferred class "A" stock listed on the New York Stock Exchange sold as high as $38 this year. It is callable at $26. Recently it declined to $27.50. On June 1

1944, the Company's president stated that directors were considering calling the preferred class "A" stock and whether a reduction in the dividend rate might be accomplished without call. He added that an early decision was not anticipated. Obviously, purchasers of this stock above the call price face either loss of capital in the event of its redemption or a smaller income return should the dividend rate be reduced. This is another instance of investors paying a substantial premium above the call price, and which this column has stressed repeatedly the possibility of loss of capital by so doing. Incidentally, the lowest this stock sold in 1943 was $35 or 9 points above redemption price.

Shifts in Investment Trust Holdings

(Continued from page 27)

ties 5%. In the industrial group, there is fairly heavy concentration in oils, merchandising shares, food and beverage companies, banking, insurance and finance, automotive and general manufacturing, in the order given.

In other words, percentage changes of Lehman Corporation during the first half year were minor, in marked contrast to those of Atlas Corporation and some other investment trusts. Lehman continues about 90% invested with holdings largely consisting of high-grade issues rendering purchase of Lehman Corporation stock virtually a speculation on the Dow average.

Comparison of the investment changes of the two companies discussed underlines the difficulty, or rather impossibility, of drawing general conclusions from composite portfolio changes of a majority of investment companies. They could only assume significance if there were distinct uniformity of policy which obviously is not now the case. In other words, they can do little to enlighten the investor as long as they reflect differences of opinion among individual managements unless the investor is inclined to choose sides. This situation is more or less natural; the objectives of investment companies are frequently at variance not only among themselves but with those of individual investors. This is the very reason why participation in investment funds, though suitable to some investors, is not held desirable by others, especially those who are reluctant to swap above average appreciation potentials for the benefits of diversification and supervision characteristic of investments in investment trust shares.

As I See It

(Continued from page 5)

caution and sound judgment. We know today that Woodrow Wilson was guided by great spiritual truths when he addressed his Fourteen Points. And World War II was made possible by the impractical and unrealistic treaty forced on the world by strong-willed men who were thinking in terms of revenge instead of a sound basis for a lasting peace.

The course of men's affairs has not run well since then and the world has been in a state of continuous turmoil and confusion. From events that have transpired and the new political and social trends in the making, it would seem that 1918 marked the end of an epoch. It may even be said to have been the real end of the 19th century as 1815 was in many respects the real end of the 18th century.

What the 20th century will bring depends on how we plan the peace when the war with Germany has been won.

Dividends Declared

	Stock of Record.	Payable.
Abraham & Straus, 87½c	Oct. 14	Oct. 25
Amer Viscose pf, q, $1.25	Oct. 16	Nov. 1
Atlas Powder pf, q, $1.25	Oct. 20	Nov. 1
Eureka Pipe Line, 50c	Oct. 16	Nov. 1
Goodyear T & R $5 pf, q, $1.25	Nov. 15	Dec. 15
Interchemical Corp, 40c	Oct. 21	Nov. 1
Interchem Corp pf, $1.50	Oct. 21	Nov. 1
Madison Sq Garden, 25c	Nov. 15	Nov. 30
Maytag $6 1st pf, q, $1.50	Sept. 30	Oct. 2
Pacific Lighting, q, 75c	Oct. 20	Nov. 15
Puget Sound P & T, 25c	Oct. 13	Oct. 23
Sioux City Gas & El 7% pf, q, $1.75	Oct. 30	Nov. 10
Traux Traer Coal 5½% pf, q, $1.37½	Dec. 4	Dec. 15
Walker (H) Gooderham & Worts pf, q, 25c	Nov. 10	Dec. 15
Amer Vicose, q, 50c	Oct. 16	Nov. 1
Brit Amer Tob Co Ltd ord .158	Sept. 1	Oct. 6
Brit Amer Tob Co Ltd reg .158	Sept. 1	Oct. 6
Br Am Tob 5% pf ord .054	Sept. 1	Oct. 6
Br Am Tob 5% pf reg .054	Sept. 1	Oct. 6
Cerro de Pasco Cop 75c	Oct. 14	Nov. 1
Cons Laund pf, q, $1.87½	Oct. 14	Nov. 1
Corn Exchange Bank Tr, q, 60c	Oct. 20	Nov. 1
Goodyear T & Rub, q, 50c	Nov. 15	Dec. 15
Long Bell Lumber Co (Md) A acc 10c	Nov. 11	Dec. 1
Maytag $3 pf (acc), 75c	Oct. 16	Nov. 1
Puget Sound Pulp & Timber, 25c	Oct. 13	Oct. 23
White Sew Mach pr pf, q, 50c	Oct. 25	Nov. 1
White Sew Mach $4 pf (acc), 50c	Oct. 25	Nov. 1
Bloomingdale pf, q, $1.25	Oct. 14	Oct. 25
Burlington Mills (ext), 50c	Nov. 15	Dec. 1
Byers (AM) 7 pf, q, $1.75	Oct. 20	Nov. 1
Federated Dept Stores 4¼ pf, q, $1.06¼	Oct. 21	Oct. 31
Horder's Inc, q, 25c	Oct. 20	Nov. 1
Kennedy's Inc, 20c	Oct. 10	Oct. 20

BOOK REVIEWS

PRICE MAKING IN A DEMOCRACY

EDWIN G. NOURSE

The Brookings Institution. 541 pp. $3.50

Focusing his discussion primarily on the practical issues of the reconversion period, the author re-examines the fundamental principles of free enterprise, constructive competition and long-term profit motivation for all citizens of the business world. He seeks to show that private administration of business in conformity with these principles would reduce the demand for government intervention to a minimum and raise our national production and general well-being to a maximum.

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G. WARD PRICE

The Macmillan Company. 282 pp. $3.00

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